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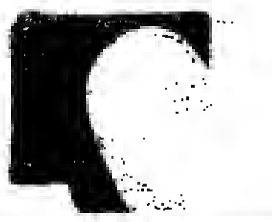

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$19.49bn state aid package for Crédit Lyonnais

French government to underwrite loans in second rescue

By Andrew Jack in Paris

The French state is to underwrite more than FFr100bn ($19.49bn) of the loans of Crédit Lyonnais, the loss-making government-controlled bank, as part of a second restructuring package that may be announced this week.

The new package – one of the largest examples of French government assistance to business – comes as a result of substantial additional losses and provisions that the bank's auditors require before approving the 1994 accounts, due to be published on March 23.

There is unlikely to be any direct cash injection from the state – reflecting the current budget deficit, the hostile reaction from private sector bankers to additional support, and regulatory scrutiny from the European Commission.

It comes on top of other large French government bail-outs to state-cootrolled companies, including FFr20bo for Air France and FFr11.1bn for Groupe Bull.

Crédit Lyonnais received an initial FFr23.3bo injectioo of casb and capital from the state early last year when it reported 1993 losses of FFr6.9bn. It has since reported a first-half loss for 1994 of FFr4.5bn.

While the first restructuring was put together hastily when the size of the bank's financial troubles emerged, the second is designed to take a more strategic view of the bank's future in an effort to make it a final deal in advance of eventual privatisation.

It is likely to include tough new financial performance targets and a requirement for an acceleration of the sale of some of Crédit Lyonnais' assets – not only its peripheral activities but also some of those more related to its core banking business.

The first rescue package, unveiled last year, included the setting up of a special vehicle, called OIG, for some of Crédit Lyonnais' worst property loans, the first FFr18bn of which was underwritten by the French state. The losses which will ultimately be shown in OIG are now believed to exceed this guarantee.

A similar structure for the second rescue is being finalised, using an accounting presentation that would allow Crédit Lyonnais to hive off more than FFr100bn in doubtful loans. These would then be excluded from the calculation of its solvency margin under internationally agreed standards.

European Commission officials will be studying the details closely after last Thursday's announcement from Brussels by Mr Karel van Miert, the competition commissioner, that he wanted a formal inquiry into the previous and current rescne plans for the bank.

France's privatised banks, including Société Générale, have voiced considerable criticism over the past months about the idea of a second taxpayer-supported rescue at a time when Crédit Lyonnais has done little to sell off anything but peripheral assets.

Embassy row turns np heat in Elysée race, Page 3
Carlton steps into bidding battle for MGM cinemas, Page 17

Italian talks aim at avoiding defeat over mini-budget

The ltalian government beld informal talks on the weekend to prevent a rightwing alliance headed by former prime minister Silvio Berlusconi from voting against the L20,000bn ($12.24bn) mini-budget. Defeat for the package would almost certainly force an early general election against the backdrop of a financial crisis. Page 3

Mormons pay $22m for English farms: The Mormon church, known officially as the Church of Latter Day Saints, has opened a drive to buy prime farmland in Europe by spending £14m ($22.3m) on six farms in eastern England. Page 16

French presidential battle intensifies: The battle between France's Gaullist presidential rivals grew as Edouard Balladur, the prime minister, clashed with Alain Juppé, the foreign minister and one of the main supporters of Jacques Chirac, mayor of Paris. Page 16

Wage offer for German strikers: Employers in Germany's engineering industry, hit by its first strike since 1984, have said they will make a "substantive wage offer" at talks with unions due to begin near Munich this afternoon. Page 3

Salinas calls off hunger strike: Former Mexican president Carlos Salinas has called off a hunger strike that had lasted two days, saying the government had bowed to his demand to retract serious allegations against him. Page 6

OECD warning on privatisation: Current privatisation programmes in OECD countries are so large that their implementation will have a powerful impact on the countries' financial systems, an OECD report warns. Page 17

Inkatha ends boycott of parliament

South Africa's Zulu-based Inkatha Freedom party ended its boycott of parliament, hut repeated its demands for substantial regional autonomy. Mangosuthu Buthelezi (left), Inkatha leader and minister of home affairs in the government of national unity, will demand that the Zulu heartland of KwaZulu Natal should enjoy exclusive powers on police, education, health and municipal government, together with some tax-raising powers. Page 6

Croat leader faces US pressure: The US will try to persuade Franjo Tudjman, the Croatian leader, to reverse his decision to expel United Nations peacekeepers from Croatia. Page 3

Russian privatisation to raise $2bn: The Russian government has unveiled plans to raise Rbs9,100bn ($2.06bn) from the sale of shares in more than 100 state-owned companies in a move designed to affirm that its privatisation programme remains on course. Page 4

GM considers UK expansion: General Motors, the US vehicle maker, is considering a substantial expansion of its production capacity in the UK with the assembly of a third car range. Page 16; GM cashes in, Page 7

Congress considers damage limitation: The House of Representatives this week turns its attention to one of the most controversial issues in its Contract with America – placing financial ceilings on the damage awards and legal fees payable in lawsuits. Page 6

Gunmen kill 13 in Karachi: Gunmen killed 13 people, including a policeman and a paramilitary ranger, in the southern Pakistani city of Karachi over a three-day Moslem holiday, police said. Violence baffles journalists, Page 5

Hong Kong goes to polls: Votes were being counted last night after Hong Kong went to the polls for the last local government elections to be held under British rule. Page 6

IMF to lend Argentina $420m: The International Monetary Fund is to lend Argentina $420m and monitor its fiscal accounts every quarter as part of a campaign to restore credibility to the country's economy. Page 6

Luxottica defends US Shoe bid: Luxottica, the Italian manufacturer of spectacle frames, hopes to prevent a slide in its share of the North American market with its $1.1bn bid for US Shoe, the US retailer. Page 19

S Korea accuses North of propaganda: South Korean president Kim Young-sam criticised the communist North for failing to halt its propaganda attacks despite a deal Pyongyang struck with the US on dismantling its nuclear programme.

Angolan boat accident kills 42: At least 42 people drowned and more than 100 are missing after a ship sank off the coast of Angola on Thursday, government radio reported.

Japan drops sale of NTT shareholding: The Japanese government has been forced to give up its planned sale of Nippon Telegraph and Telephone stock, due this month, because of the depressed stock market. Page 19

Lucas wins its biggest contract: Lucas Industries signed its biggest motor components supply contract. The deal, with Volkswagen of Germany, for an advanced diesel electronic fuel injection system is expected to earn the UK automotive and aerospace group at least £1bn in sales. Page 18

Mafia planted bombs 'to punish Pope': An Italian magistrate investigating bomb attacks on churches and museums in 1993 says he believes the Mafia carried out two of them to punish Pope John Paul for his condemnation of the crime group.

Peseta faces devaluation in ERM after slide

By Peter Norman, Economics Editor, in London

The peseta appeared last night to be heading for devaluation in the European Monetary System as senior officials from the finance ministries and central banks of the European Union met in emergency session in Brussels.

A meeting of the EU's monetary committee was called at Spain's request after the peseta, which has been under growing selling pressure for weeks, fell sharply towards its lower intervention points in Europe's exchange rate mechanism at the end of last week's trading.

Although the Spanish economics ministry declined to comment on the meeting, European monetary officials said a devaluation of the Spanish currency was on the committee's agenda as it gathered yesterday in a hid to forestall turmoil in European currency markets this week.

The committee met as fears grew of currency market turbulence following the failure last Friday of 17 central hanks headed by the US Federal reserve, the Bank of Japan and the Bundesbank to stop the dollar slumping to a post-second world war low against the Japanese yen.

Further co-ordinated central bank intervention to support the dollar is expected this week after remarks in Tokyo yesterday by Mr Masayoshi Takemura, the Japanese finance minister.

"After spending morning until night on Friday on the telephone with American and European finance ministers, we achieved a consensus among Japan, the United States and Europe that it is not desirable for the dollar to get any weaker," Mr Takemura said, according to Reuters news agency.

The Japanese finance minister, who was addressing a party convention of the Liberal Democratic Party, said: "We also decisively carried out joint intervention, but it has so far not been effective in supporting the dollar. We must maintain this stance at the start of this week to guarantee that the problem of the yen's appreciation is solved."

The decision to bold an emergency meeting of the EU monetary committee was taken on Saturday after the peseta had fallen to a new low of Pta88.56 against the D-Mark on Friday.

The gap between the peseta, the weakest currency in the ERM, and the Netherlands guilder, the strongest, had widened to more than 12 per cent by the end of last week's European trading. The D-Mark was trading within Pta3.5 of its upper limit of Pta91.912 against the Spanish currency. It is thought that the Bank of Spain sought the emergency meeting in part because of concern that its reserves were becoming too low to defend the peseta.

A peseta devaluatioo would be

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Li Peng blames his own government for surge in prices

Inflation concern: China's premier Li Peng delivers his annual work report yesterday at Beijing's Great Hall of the People. In an unusually candid admission, he said policy mistakes at all levels of government had allowed inflation to reach a post-1949 record, causing "great resentment in tha masses" Picture: Reuter

Chinese premier pledges action to curb inflation

By Tony Walker in Beijing

Li Peng, China's premier, yesterday forecast a slowing of the economy as part of the government's intensified attempts to control inflation.

He said the economy was expected to grow 8 per cent to 9 per cent this year compared with the 11.8 per cent last year and 13 per cent in 1993 and 1992. He pledged that the administration would strive to bring inflation down to 15 per cent this year compared with more than 20 per cent in 1994.

Mr Li was delivering a "state of the nation" address at the opening session of the National People's Congress, China's parliament. On the suhject of Deng Xiaoping, the ailing senior leader, Mr Li mentioned only his contribution to economic theory in the phrase he popularised, "socialism with Chinese characteristics".

The annual parliamentary gathering coincides with the transition to a new generation of leaders. Mr Li emphasised the need to maintain the momentum of reform, to tackle loss-making state enterprises, combat corruption and huild a social security system.

He indicated that price hiberalisation would be frozen and, in a surprisingly candid admission, blamed government errors for last year's surge in prices. "All this aroused great resentment in the masses," Mr Li told the gathering of almost 3,000 delegates. "Such a sharp rise in prices was due both to objective reasons and to mistakes of governments at all levels."

Among his criticisms were that there had been insufficient investment in agriculture and failures in the food distribution system. Capital spending had been allowed to grow too fast, and monetary policy was lax.

It was not clear whether Mr Li's remarks were aimed partly at Mr Zhu Rongji, the senior vice premier in charge of the economy, and a potential leadership rival. However, Mr Zhu is unlikely to have been pleased by the implied criticism of his stewardship of the economy.

According to Mr Li, retail price inflation in 1994 leapt by 21.7 per cent year on year. Food price increases, including administered price rises for grain, accounted for 13 percentage points of the 21.7 per cent rise in the retail index, he said.

"We deem it appropriate to set this year's economic growth rate a little lower than last year's," Mr Li said, "since the growth rate has remained over 11 per cent for three consecutive years and currently there exists fairly serious inflation."

Li Peng urges action on state enterprise reform, Page 5
Crackdown on exchanges, Page 17

Barings told Leeson to cut futures contracts holdings

By Nicholas Denton in London, Katharine Campbell in Frankfurt and Nikki Tait in Singapore

Senior Barings executives responsible for controlling risk gave instructions a month before the bank's collapse that Mr Nick Leeson, its Singapore-hased trader, was to reduce his holdings of futures contracts.

A meeting of an eight-man asset and liability committee in London on January 26 indicated concerns over Mr Leeson's trading on the same day that he allegedly made his largest single purchase of loss-making futures contracts.

The minutes of the meeting record that actions to be taken included: "Leeson to be advised that position should not he increased, and when possible reduced." In fact, Mr Leeson increased his positions substantially in February – allegedly leading to the bank's collapse.

Disclosure of the committee's concerns – likely to increase controversy over the bank's risk management – came last night as two Dutch banks appeared to be in the final stages of a bidding contest to buy Barings' businesses. ING, which is thought to have offered to take on all Barings' liabilities for £1, was pitted against its rival ABN Amro, which is acting in coojunction with Smith Barney, the US investment bank.

ABN Amro, which owns the UK broker Hoare Govett, is thought to want to buy Barings' corporate finance and asset management arms. Smith Barney would then take over Baring Securities, the stockbroking and market making operation.

Participants in the talks said they aimed to reach a deal before the opening of markets this morning.

The administrators of Barings, Ernst & Young, were faced with a hard comparison between the two hids. ABN Amro is believed to bave offered a higher cash sum than ING for Barings, but its bid differs in its assumption of liabilities.

Mr Leeson's trading activities are thought to have provoked heated talks at Barings risk management committee meetings. At the regular daily meeting of the committee on January 26, Mr Ron Baker, a member of the committee and bead of the financial products group, gave a presentation on the Baring Futures unit managed by Mr Leeson.

In Singapore, earlier the same day, Mr Leeson allegedly bought 16,000 March contracts on the Nikkei 225 index for a hidden trading account, numbered 88888, which eventually ran up losses of £384m ($610.56m) by February 24.

Barings' treasury in London remitted $1.3bn to Mr Leeson's unit in January and February to meet collateral payments on futures and other contracts, according to Price Waterhouse, which has been investigating the affair for the Singapore authorities.

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Austria	Sch35	Greece	Dr400	Malta	Lm0.80	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft185	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lev100.00	Iceland	IKr220	Nigeria	Naira90	Slovak Rp	KSL60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	CZK35	Israel	Shk7.90	Oman	OR1.50	Spain	Pta225
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y500	Philippines	Pso50	Switz	SFr3.60
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl 42,000	Syria	S£50.00
Finland	FM15	Kuwait	Fils.625	Portugal (m'land)	Es230	Tunisia	Din1.500
France	FFr10.50	Lebanon	US$1.50			Turkey	L40,000
Germany	DM3.80	Lux	LFr70			UAE	Dh12.00

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THE BARINGS CRISIS

Collapse adds to Japanese banks' woes

By Gerard Baker in Tokyo

The collapse of Barings bas exacerhated the difficulties faced by Japan's fragile financial system, says a report published yesterday by a Japanese financial newspaper.

The Nihon Keizai Shimbun reported that 15 Japanese banks have a total of Y67.7bn non-performing assets in Baring Securities (Japan), a unit of the failed UK merchant bank.

The bad assets comprised Y34.5bn in loans on deeds, Y8.53hn in overdrafts, Y7.93hn in guarantees, and Y16.7bn in loans receivable in securities. The newspaper said the banks were likely to write off about Y50bn of the bad assets – the deeds, overdrafts and guarantees – in the current business year ending March 31.

The report said that, of the 15 banks, Sakura Bank was the largest creditor with Y10.53bn followed by Yasuda Trust and Banking Co with Y10hn, Sanwa Bank with Y8.5hn and the Bank of Tokyo with Y6bn. The newspaper said other hanks included Mitsubishi Trust and Banking Corp, Mitsuhishi Bank, Sumitomo Bank, Dai-Ichi Kangyo Bank, Tokai Bank, the Industrial Bank of Japan, and Fuji Bank. There was no immediate comment available from any of the banks on the report.

Last week it was reported that several of the banks had lent funds to Barings in the form of government bonds, to cover the cost of margin payments lodged with the Osaka Securities Exchange. Sucb payments are made as collateral for the purchase of futures contracts on the exchange and are unlikely to be recovered, given the scale of Barings' losses.

The Barings prohlems will add to the hurden of non-performing loans already undermining Japan's banks. Most financial institutions are continuing to struggle to rid themselves of property-related bad dehts accumulated during the period of rapid increases in asset prices in the late 1980s. Banks have been gradually writing off the bad assets hut they remain at cripplingly high levels – an estimated Y30,000bn at the largest 21 banks alone.

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■ SINGAPORE AUTHORITIES – By Nikki Tait

Failure is blamed on management in London

Singapore's regulatory authorities had one overriding aim at an explosive press conference on Saturday – to reassure the financial community about the soundness of their country's markets. Tbey refuted any suggestion that they had been lax about dealing with the large Nikkei 225 index positions which Baring Futures (Singapore) had built up – and they pointed the finger at Barings' management in London.

They cited a letter, stamped as received in March 1992, which Mr James Bax, who was in charge of the Baring Securities' Singapore operation, sent to Mr Andrew Fraser, head of equities in London. Mr Bax expressed foreboding about Barings' plan to activate its Simex seat, and run an execution service for Barings options and futures people in London and Osaka out of Singapore.

He wrote: "My concern is that we are in danger of setting up a structure which will subsequently prove disastrous and with which we will succeed in losing either a lot of money or client goodwill or probahly both."

Mr Bax was particularly worried about the reporting structure whicb would have seen Mr Nick Leeson, as manager of futures and options settlement, reporting to both Mr Simon Jones, a Baring director in Singapore, and Mr Gordon Bowler, Barings' risk controller (Asia), based in Hong Kong.

"In my view it is critical we sbould keep clear reporting lines and if this office is involved in Simex at all, Nick should report to Simon and ultimately he responsihle for the operations side."

A second revelation was that Mr Anthony Hawes, Barings' treasurer in London, flew to Singapore on February 8 to reassure the Simex authorities that the group understood and had provided for its commitments after the exchange had voiced concerns about the extent of BFS's positions.

According to Simex's legal advisers, the exchange was aware from the first week in January that BFS's positions were becoming larger. It started to press for explanations. Througbout "January and February, Simex was continuously assured hy the group that it was able to meet all its ohligations. As and when margins calls were made, all margin calls were met".

These concerns led to correspondence between tbe exchange and Barings. While tbis correspondence was signed hy Singapore-based directors, "at least one of the letters appears to have been cleared hy London", said Mr Shanmugan, from Allen & Gledhill, the law firm advising Simex.

In the course of the correspondence, Barings "assured Simex [that the] Baring group was aware of the financial commitment to Simex and that

Associated Press

Officials from Singapore's regulatory anthorities at Saturday's press conference

credit facilities had been arranged – in fact, that additional credit facilities had been arranged – to meet their commitment".

Simex lawyers would not say wbether they were told that the positions were proprietary. But they pointed out that three of the four accounts handled hy BFS were internal group accounts (although these might ultimately bave had non-Baring customers outside Singapore). "We were told that the three group accounts were to be treated as one account for the benefit of the Barings group."

Mr Shanmugan said it appeared to be "reasonahly clear" that Barings "as a group took a bet on the market and that turned bad and they lost a lot of money".

The fourth BFS customer was named as BNP (Tokyo), part of the French banking group Banque Nationale de Paris. However, a BNP spokesman in Paris said yesterday that it did not expect difficulties to arise from its relationship with Barings in Singapore. BFS had acted as BNP's clearer on Simex as the French bank was not yet a member of the futures exchange.

Asked whether Simex should have shut down the BFS operation at an earlier stage, the Singapore autborities said there had to be some basis for taking such action. Barings had continued to make all margin payments and bad provided assurances. Price Waterhouse, brougbt in by the Singapore authorities to investigate the affair, revealed that S$1.3bn (US$900m) was transferred from Barings in London to the Singapore office in January and February, with S$286m coming hetween February 17 and 24.

Finally, reference was made to the August internal audit report which warned of the organisational dangers inherent in BFS. The Singapore regulators were asked if any action appeared to have been taken in the light of this damning analysis. They said that they had seen no evidence of changes to the basic structure – Mr Leeson "was still in charge of the front and back office" – hnt they had been told the company was planning to bring in a compliance officer. Sbe would have arrived this month.

In an earlier statement, Simex said that all BFS positions had been either liquidated or "transferred out". For this process, "margins which Baring placed with Simex have been sufficient" and "no loss has resulted for Simex".

Meanwhile, Price Waterbouse confirmed that it had evidence that Mr Leeson directed his staff to pass reclassification entries in the relevant records. He was able to do this because he was "placed in a position wbere he was both ahle to initiate transactions and also ensure that transactions were settled and recorded".

■ LABOUR – By James Blitz

Brown to step up demands on probe

Mr Gordon Brown, the shadow chancellnr, will today press home his call for a fully independent inquiry into the Barings collapse.

Mr Brown said yesterday that he would ask Mr Kenneth Clarke, the cbancellor, to make a second statement to tbe Honse of Commons this week on the bank's collapse.

He noted that the main aim of the current inquiry, under the Board of Banking Supervision, was to establish the chain of events that caused Barings to fail last weekend.

However, he said a central part of any inquiry must be to examine the Bank's supervisory role and that this could not be done hy a board that is chaired by Bank governor Mr Eddie George.

■ TRADING STRATEGY – By John Gapper and Richard Lapper

Document outlines Leeson's operational scope

The exploitation of small price differences between the Simex and Osaka futures exchanges was only one of five proprietary trading strategies on the Nikkei 225 index that was supposed to be pursued hy Barings Futures (Singapore).

According to internal documents, the unit managed by Mr Nick Leeson was also authorised to place bets on short-term market movements hy "position-taking in anticipation of favourable, short-term market movements".

The disclosure is significant because executives of Barings have said they believed Barings Futures was running a wholly matched book in which long positions on one exchange were matcbed hy sbort positions on the other.

The bank collapsed after the discovery of losses hidden in an account from £3.6bn of futures contracts on the Nikkei 225 index, as well as further losses on put and call options on the index which were accumulated by Mr Leeson.

An internal Barings auditors' report, completed last August, says that the five Nikkei 225 trading strategies earned $17m of Baring Futures' $30.7m profits from proprietary trading profits in tbe first seven months of last year.

The document explains that price differences frequently emerge between the Nikkei 225 contract listed on the Osaka Securities Exchange and Simex since both markets "trade independently," according to tbe audit report.

"Baring Futures (Singapore) is best-placed to take advantage of these price differences as it is a memher of hotb excbanges and is usually in possession of good market intelligence," says the auditors' report. Tbe document explains the unit also adopted a number of other strategies:

- It took positions on market movements during the day, but closed down those positions at night.
- It used dual membership of Simex and Osaka "to facilitate trades on Simex which could otherwise not be completed due to a lack of buyers or sellers in size.
- It traded "against large market bids or offers which are taking time to fill, usually hy taking positions in the other market, and trading out after prices moved.
- It traded between the "spread market", wbere prices were quoted for offsetting contracts in different quarters of the year, and the market for individually quoted contracts.

Berlusconi defiant as showdown nears

By Robert Graham in Rome

The Italian government beld informal contacts throughout the weekend to prevent a right-wing alliance headed by former Prime Minister Silvio Berlusconi from going ahead with its decision to vote against the L20,000bn ($12.2bn) mini-budget.

Defeat for the financial measures would almost certainly force an early general election against the back-drop of a financial crisis. This encouraged behind-the-scenes talks in advance of what promises to be a week of drama.

Mr Lamberto Dini, prime minister and former director-general of the Bank of Italy, can muster a majority in the Senate, the upper bouse, which is due tomorrow to vote on the measures, which rely heavily on increased taxes.

However, in the 630-seat chamber of deputies the government lacks a clear majority and could be defeated in the vote on Thursday. During the vote of confidence in February when Mr Dini began his mandate, the centre-left parties provided 302 votes compared with the outgoing right-wing coalition's 270 members, wbo abstained, and 39 wbo voted against. The negative votes came from Reconstructed Communism, the hardline rump of the Communist party, and its attitude now will be crucial.

Over the weekend Mr Berlusconi remained in belligerent mood, showing little sign of compromise. Neverthelsss, other members of his Forza Italia movement hinted there was still time to work out a deal before Thursday's vote. Mr Marco Pannella, leader of the small pro-Berlusconi reformist grouping, said be would vote for the government and warned his allies in the right-wing alliance that they risked losing voter support by being seen as irresponsible.

The rigbt-wing allianca announced late on Friday it would vote against the mini-budget in a surprise about-turn, baving earlier pledged to back it. Mr Berlusconi changed his mind because he feared Mr Dini would spin out his mandate and thus undermine his goal of forcing a general election in June.

The news hit the lira, which closed on Friday at a new low in New York trading of L1,180 against the D-Mark. The move also caused the differential between interest rates on Italian state bonds and German 10-year Bunds to reach the psychologically important barrier of six percentage points.

The mini-budget is essential to hold down the deficit of the 1995 budget to its target of 8 per cent of gross domestic product.

At the weekend Mr Dini reminded Mr Berlusconi, who recruited him as Treasury minister in the previous government, that he bad himself recognised last November the need for corrective measures.

Mr Dini said the consequences would be disastrous if Mr Berlusconi and his allies went ahead witb their proposed decision to reject the financial package.

Mr Berlusconi, bowever, claimed that the country's problems were caused by having a government of technicians which lacked a proper parliamentary base.

Mr Gianfranco Fini, leader of the rightist National Alliance and his main ally, called Mr Dini "a ventriloquist for [Massimo] D'Alema" – the leader of the former communist Party of the Democratic Left, who is backing the government.

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UN summit critics attack 'empty rhetoric'

By Robert Taylor, Employment Editor

The United Nations' social development summit opens in Copenhagen today amid widespread criticism over its ambitious objectives to "eradicate absolute poverty, achieve "full, productive employment" and an end to "social exclusion".

A parallel conference of non-governmental organisations in the city'a old naval base has condemned the $60m gathering of more than 130 heads of government as a waste of time. "The declaration prepared for the conference is a lot of mainly empty rhetoric," said Ms Patricia Feeney of Oxfam, the anti-poverty charity.

But last night Mr Juan Somavia, the UN's Chilean ambassador and chairman of the conference's preparatory committee, said the conference represented a "strong cry of alarm" from people needing "security in an uncertain, insecure world."

Outside the conference arena, there is scepticism too. An opinion poll conducted by a Danisb newspaper yesterday revealed 46 per cent of Danes thought the summit would make no difference to world poverty and a further 30 per cent believed it would "create false expectations".

The conference will be attended by many heads of government from developed countries and the third world, including Mr Nelson Mandela from South Africa, Mr Helmut Kohl from Germany, French President François Mitterrand and President Suharto from Indonesia. Chinese premier Li Peng is expected to arrive while the US will be represented by Vice-president Al Gore.

The search for a consensus declaration has inevitably forced many compromises. There is, for instance, a strong possibility that the final declaration will contain no explicit opposition to the use of child labour or support for workers' rights, although the European Union, backed by tbe US government, has strongly supported such moves.

Instead, the Group of 77 developing countries is demanding a less precise form of words that merely refers to showing respect for "relevant International Labour Convention's rules" without naming any of them.

India, Indonesia and Malaysia suspect the industrialised world's concern for workers' rights is being used as a cover for their desire to press for trade protection. Nor is there likely to be agreement on what to do about the debt problems of many poorer countries, particularly those in sub-Saharan Africa.

Many in the Group of 77 are also critical of what they see as the lack of will among industrialised countries to provide any new or additional resources to assist in achieving the summit's social objectives. Some strongly committed donor countries sucb as Sweden are burdened by domestic economic problems which has forced them to cut their assistance programmes.

The Copenhagen conference is the latest in a process that began five years ago with a gathering in New York on children. In September, the UN holds a women's conference in Beijing.

Editorial Comment, Page 15

IG Metall to face demands in fresh talks

By Michael Lindemann in Bonn

Employers and union leaders in Germany's engineering industry return to the negotiating table today to try to end the pay dispute that has sparked the industry's first strike in 11 years.

The employers, who have so far refused to specify the wage rise they can afford, have said they will make a "substantive wage offer" at the talks outside Munich. But in return, Mr Hans-Joachim Gottschol, chairman of the Gesamtmetall employers' association, said unions would have to allow engineering companies to work more flexibly to make up for "the burdens emerging from the wage round."

A spokesman for Gesamtmetall said he was "sceptical" that an agreement could be reached quickly.

IG Metall, the 3.1m-strong engineering union which called the strike 11 days ago to underline its demand for a 6 per cent wage rise, said it would allow work to begin again at three plants in Ingolstadt, near Munich.

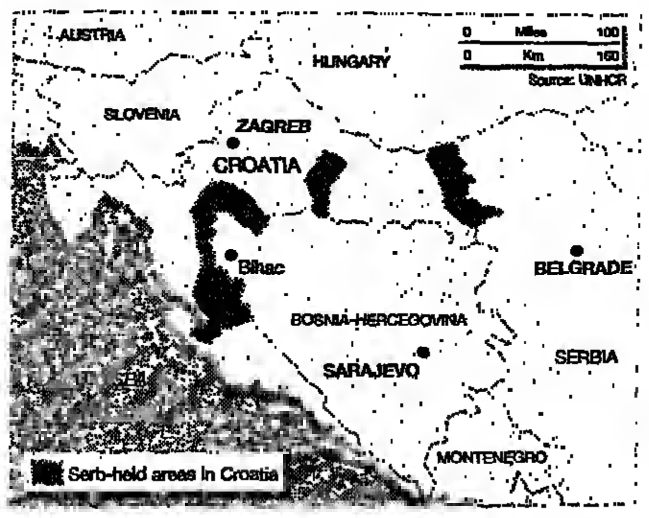
If no agreement can be reached by Wednesday, employers have said they will move a step closer to lock-outs. That would involve closing factories in proportion to the number being hit by strikes and would put pressure on IG Metall, which then has to pay the locked-out workers strike money.

Only 30 plants in Bavaria have so far been hit by the strike but the union has threatened to extend the stoppage across the country if lock-outs take place.

A spokesman for Gesamtmetall suggested the employers could offer a 3 per cent wage rise but only if the union was prepared to talk about other cost-cutting measures.

Such measures might include postponement of the 35-hour week, supposed to be introduced on October 1. Employars bave said that shortening the working week by one bour will raise labour costs by 2.8 per cent and have suggested the 35-hour week be postponed until next year.

German economy: The costs of competing, Page 15



Tudjman plays with fire over UN withdrawal

Laura Silber on brinkmanship between Croats and rebel Serbs

The US will today try to persuade. Mr Franjo Tudjman, the Croatian leader, to reverse his decision to expel United Nations peacekeepers from Croatia.

Mr Richard Holbrooke, US assistant secretary of state for eastern Europe, travels to Zagreb today to try to dissuade Mr Tudjman, whose action was described at the weekend as "a grave mistake" by Mr William Perry, US defence secretary.

Mr Perry met the defence ministers of France, Germany, and the UK at the weekend to co-ordinate Nato protection of any UN withdrawal.

A withdrawal could result in renewed war between Zagreb and rebel Serbs in Croatia. Backed by the Yugoslav army, rebel Serbs took up arms against Croatian independence in 1991 and carved out their own state, which covers a third of the republic. Frustrated with the UN failure to impose Croatian authority over those Serb-held areas, President Tudjman in January ordered the 12,000 peacekeepers to begin withdrawal by the end of its mandate on March 31.

In the event of their withdrawal, fighting could erupt between Serb rebels and the Croatian army as they rush to take control of "no-man's land" – a strip of land 6km-10km wide and more than 1,000km long, currently monitored by UN troops.

Over the past weeks UN officials have noted a build-up along and beyond the confrontation line. Last week Serb forces responded in kind when Croats brought heavy weaponry within the no-man's land.

A renewal of the Serbo-Croat war would engulf Bosnia, as Croats and Moslems moved to take advantage of the fact that their Serb foes were tied down on sevaral fronts. This would again raise the spectre of an all-out war consuming the former Yugoslavia – the nightmare scenario that the west has sought to avoid.

Mr Tudjman is in a delicate political position. His defiant stance, Croatian analysts say, has made it difficult for him to bow to western pressure unless he wins real concessions – not just promises of foreign aid but substantial changes in the mandate of an international peacekeeping force.

"There is economic and political pressure on the government to satisfy domestic criticism. There is pressure from refugees, veterans, the right wing in Tudjman's party and the right wing beyond," says Mr Maroje Mihovilovic, a Zagreb journalist.

Growing demands for an immediate solution to the status of Serb-held lands, whipped up by the pro-regime press, contrast with sober warnings that Zagreb could end up in an even worse position. Indeed, Croatian government officials at the weekend insisted that their army could win a military contest against the Serb rebels.

Mr Gojko Susak, the extremist Croatian defence minister, suggested that Croatia would be left to deal with its Serbs alone. "I don't think Yugoslavia would even have time to intervene before we deal with [Serb-held areas]."

In a television interview on Friday night, Mr Susak denied reports that Croatia was preparing for war. But be said 500,000 people could be mobilised within 24 hours in case of "unforeseen events".

Mr Borislav Skegro, Croatia's deputy prime minister, dismissed western pressure as a "normal procedure in politics", adding: "Ws are now strong enough to resist." Croatia says the UN can keep its headquarters in Zagreb so as to continue to operate in Bosnia. But a UN official dismissed this as "little more than a cynical attempt to preserve hard-currency [UN] income." UN spending in Croatia accounts for 8 per cent of the country's approximately $9bn gross national product.

Despite the grim forecasts, some Zagreb analysts believe Mr Tudjman still has room for manoeuvre – more so as from "from a military point of view, Croatia cannot win a new war", says Mr Slaven Letica, a professor at Zagreb University and a former adviser to Mr Tudjman.

He says that, in order to avert another war, Mr Tudjman will accept a compromise solution before the mandate for the UN force expires. Until then, both sides are likely to engage in a dangerous game of brinkmanship.

INTERNATIONAL NEWS DIGEST

Moscow crisis meeting on crime

Russia's highest security body meets today to tackle a crisis of uncontrolled crime and corruption following the slaying of popular journalist Vladimir Listyev last week, which provoked an outpouring of national outrage.

It is also expected to weigh world reaction to the fighting in the breakaway republic of Chechnya following the visits of Prime Minister Viktor Chernomyrdin to Britain and France, and Foreign Minister Andrei Kozyrev to China and Japan.

Officials said the State Security Council headed by President Boris Yeltsin would examine ways to stem the influence of organised crime which even Mr Yeltsin has admitted is pervasive et all levels of Russian political and economic life. *AFP, Moscow*

Greenland coalition ahead

Greenland's ruling centre-left coalition looked set yesterday to continue in power after making gains in elections for a new 31-seat home rule parliament. The Siumut party boosted its share of the vote by 1.2 points to 38.5 per cent, with its left-wing coalition partner Inuit Ataqatigiit (IA) gaining one point to take 20.3 per cent.

Siumut has ruled the vast ice-bound Arctic island in tandem with the IA since the last election in 1991. Campaigning had focused on economic problems caused by declining fish catches and the island's sometimes stormy relations with Denmark. *Reuter, Copenhagen.*

Pressure grows on Claes to go

Mr Willy Claes, secretary-general of the North Atlantic Treaty Alliance, came under increasing at the weekend to resign over alleged kickback payments being investigated by the authorities in Belgium.

A member of the Socialist party and a former colleague of Mr Claes added his voice to opposition politicians calling on the Nato chief to leave his post until the investigations were over. Mr Jef Sleeckx, a SP member of parliament, said on Belgian television that he thought it would be best for Mr Claes to step down. The SP is becoming concerned about the effect the scandal is having on the party's standing.

However, Mr Claes, who is determined to remain in the post, is unlikely to heed calls from Belgium for his resignation. He still enjoys the support of Nato officials who continue to express confidence in him. *Caroline Southey, Brussels*

Algerian newspaper banned

Algerian authorities have banned an Algerian newspaper on the grounds it was not publishing in Arabic, editors of the newspaper said yesterday. But editors of La Tribune, which has distanced itself from the government's tough line against Moslem militants, hit back with a strongly-worded statement vowing to fight what it called Algeria's "coalition of terrorism and authoritarism".

The government ordered the French-language paper to close because it was not publishing a twin publication in Arabic as stipulated by e 1990 information law, the editors said.

Algeria's army-backed government has suspended several newspapers for "subversive information" and "apologising for terrorism" since conflict with the militants broke out in 1992. But it was the first time a publication had been banned on these grounds. French is still widely spoken.

Algerian journalists are under permanent threat from militants who have killed at least 33 journalists since June 1993. An estimated 30,000 Algerians have died in the conflict. The editors said they had appealed to the Algiers court which first licensed it. *Reuter, Tunis*

Victor Chernomyrdin believes his country needs austerity now, he tells **Chrystia Freeland** and **Richard Lambert** in London

Russian PM sees 1995 as 'turning point' for economy

If Mr Victor Chernomyrdin, the Russian prime minister, had been born in the west, he could now have been in charge of a multinational such as General Motors. Even within the strait-jacket of the Soviet economy, Mr Chernomyrdin'e hard-headed personality carried him to the top of Russia's equivalent of the western corporate elite: before moving into government he was the chairman of Gazprom, the Russian gas monopoly which controls 30 per cent of the world's known natural gas reserves.

But as the head of the Russian cabinet, Mr Chernomyrdin faces a task which would daunt the most fearless corporate trouble-shooter in tha west. After four years of economic reforms, Russia is still prone to monthly levels of inflation in donble digits, industrial production continues to decline, and the nascent private sector is ridden with corruption and e tendency to resolve business disputes with Kalashnikovs rathar than court orders.

This is the year, Mr Chernomyrdin vows, when all that will change. He describes 1995 as a "turning point", the make-or-break year when the Russian government will at last succeed in stabilising the country'e economy by sticking to an austere budget which has been pushed through perliament and seems on the brink of winning approval from the International Monetary Fund.

Mr Chernomyrdin is good at explaining why tha Russian government has decided to move, as he puts it, from the "moderate austerity" of 1994 to the "true austerity programme" it hopes to implement this year.

"We cannot continue to drag out tha process of economic reform," he says, and goes on to describe the high inflationary toll which Russia's piecemeal approach to economic reform in the past has exacted. This year, Mr Chernomyrdin vows, "we must kill inflation".

Another motive for Mr Chernomyrdin's public conversion to economic austerity during his tour of London and Paris last week is his government's effort to persuade western financial institutions to foot part of the bill for Russia'e economic reforms. Mr Chernomyrdin insists that his programme

> 'For us today the principal shortcoming is a lack of time. We must await the emergence of a new kind of man'

"was not created under any pressure from the outside, it is our own programme", but he also says Moscow is counting on western aid to cover half the budget deficit, targeted at between 8 and 10 per cent of gross domestic product.

But for all his skill at conveying why Russia needs an economic breakthrough in 1995, Mr Chernomyrdin is less persuasive when it comes to explaining why that breakthrough should succeed. The 1995 programme is not the Russian government's, or even Mr Chernomyrdin's, maiden effort to accomplish economic stabilisation. Previous attempts to control inflation faltered when the government caved in to demands from industry and agriculture for cheap state credits.

Mr Chernomyrdin likas to style himself as "a pragmatist and a realist" and says he prefers to "err on the side of pessimism". Perhaps that is why the corporate manager-turned-premier is unable to offer a firm guarantee that this year there will be no state bail-outs of industry and agriculture. Indeed, he goes further, insisting that last year'e government snbsidies, which pushed monthly inflation back into the double digits, were necessary.

"Of course, the best thing would have been not to give credits, but in 1993 and 1994 it was impossible to survive without them," Mr Chernomyrdin says. "Today, looking back, I must say that I would do exactly the same thing again."

Mr Chernomyrdin has an equally pragmatic response to another of the principal criticisms of Russian economic policy: the failure of the government to obtain significant tax revenues from the oil and gas sector. Western economists and the World Bank hava begun to point ont that in other countries with substantial mineral resources, such as Indonesia, revenues from the oil sector have played a big role in helping to offset the costs of structural economic reform. But last year in Russia, oil and gas companies enjoyed substantial tax exemptions.

Mr Chernomyrdin admits: "This is e serious problem because if the energy companies could pay taxes today that would be enough for us, we would hardly need to ask for western credits at all." But he argues that because of the general malaise of the Russian economy, energy producers are unable to make e substantial contribution to government coffers. "The negative processes in the economy influence the entire economy and the energy producers are the first to suffer," he states.

The Russian prime minister is a man ecutely aware of the gap between what Russia needs – strict fiscal and monetary policies offset by tax revenues from the energy sector – and what can realistically be accomplished within the deformed economic landscape Russia has inherited from Soviet central planners. As much as anyone, Mr Chernomyrdin embodies the country'e economic contradictions.

That is perhaps why he argues that Russia's economic travails are *sui generis* and that what Russia needs most is not clever economic policies, but time to mature.

"Yon cannot compare the Russian economy with that of any other country," Mr Chernomyrdin says. "For us today the principal shortcoming is not our financial situation but e lack of time. We must await the emergence of a new kind of man."

Mr Chernomyrdin's assertion oddly echoes Vladimir Lenin's call in 1917 for the creation of "a new Soviet man" able to construct communism. But as he realises, Russia's late 20th century capitalist revolutionaries lack one of the advantages which the initiators of tha communist experiment enjoyed nearly 80 years ago. Whereas the Bolsheviks forced through their communist transformation with all the coercive power of an authoritarian state, Mr Chernomyrdin's effort to undo their work is being conducted by a government subject to the verdict of the ballot box.

He says the parliamentary and presidential elections which Russia plans to hold over the next 18 months pose a serious obstacle to his government's effort to finally make tough economic policies stick.

"Our parliamant has only been working for a little more than a year and when I think to myself that at the end of the year new peopla will be elected and the whole process of establishing relations with parliament will begin again, I realise that it is an utterly horrible prospect," Mr Chernomyrdin says. "Now is the period when we should be carefully moving forward with our economic programme step by step, but instead we will be distracted by an election campaign, by political competition and by populist outbursts."

The big question for Russia in 1995 is whether the premier can steer his government along its declared tough fiscal and monetary course against these anticipated waves of campaign-trail populism. Mr Chernomyrdin says Russia needs time; this year there mey not be enough.

Victor Chernomyrdin: task would daunt any western corporate trouble-shooter Tony Andrews

Moscow unveils sell-off plans

By John Thornhill in Moscow

The Russian government has unveiled plans to realise Rbs9,100bn ($2.06bn) from the sale of shares in more than 100 state-owned companies, in a move designed to affirm that its privatisation programme remains on course despite recent scares about re-nationalisation.

The privatisation plans, outlined to the Russian business elite at a recent presentation and leaked to the Sevodnye newspaper, will boost government income, increase the competitiveness of the economy and bolster the country'e fast-developing equity market.

By the end of the month, the government will fix the full list of companies for sale and the timetable for their disposal, but it has already indicated that it will reduce its shareholdings in several oil and metals companies. It is also considering selling packets of shares in the sea and river fleets and the state airline Aeroflot, although it appears to have ruled out privatising any of the railway network for the time being.

The next stage of the privatisation programme was called into doubt late last year when Mr Vladimir Polevanov, privatisation agency head, spoke of the need for re-nationalising some strategic assets.

Although Mr Polevanov was subsequently sacked, Mr Anatoly Chubais, the first deputy prime minister, conceded that the "Polevanov syndrome" had done grave damage, unnerving foreign investors and unsettling Russia'e volatile capital markets.

At the presentation, ministers fleshed ont plans to encourage private investment in the productive economy through the creation of US-style mutual funds and non-state pension funds.

Mr Dmitri Vasiliev, executive head of the Federal Commission on Securities and Capital Markets, which has just been granted ministerial status, said progress was being made on developing the infrastructure for secure and efficient capital markets. A share registration scheme was being introduced and the mechanism for a depositary and clearing should be in place in the next two to three months, he said.

But ministers accept that private savings are unlikely to be drawn into long-term investments while inflation is so high. Although the monthly inflation rate appears to be falling after a surge at the turn of the year, it remained at 11 per cent in February.

The government believes that increasing financial stability would also suck back much of the domestic capital which has fled Russia in recent years.

Estonia set to dump centre-right coalition

Poll result is expected to reflect uncertainty about recent radical reforms, reports **Matthew Kaminski**

An Estonian professor of Japanese litarature considered the voting options at e gymnasium-turned-polling station. Dismissing the leading rightwing party as too interested in money, and condemning the leftwing group for its "populist politics", Mr Rein Raüd voted centrist.

"These elections are not going to change anything," Mr Raüd said. Yet the political face of Estonia will surely change in the country'e second parliamentary elections. With final results expected today, Estonian voters are expected to follow the pattern of recent elections in Hungary and Poland, and dump the ruling centre-right Fatherland coalition.

They are likely to be replaced by a selection from the many and varied competing parties including ex-communists, market-reformers and pro-farmer groups. The impact of this result on the Baltic country's economic reforms and political soveraignty remains unclear.

Economic reform has had successes. Gross domestic product grew 5 per cent last year after a 38 per cent drop in 1992; the kroon, pegged at eight to the D-Mark, is stable; the budget is balanced; and foreign investment has jumped to $139 per capita, third highest in eastern Europe.

The country is politically divided along stark geographic and generational lines. The young and urban elite are the standard-bearers of the new Estonia. Liberal business and trade policies have created an antrepreneurial elite concentrated in Tallinn, the capital.

However, the mixed blessings of radical reforms, coming into clarity after the initial shock and evident revival, are a cause for dissatisfaction elsewhere. Outsida the cities, among the old Soviet apartment blocks and in the countryside, lingering poverty persists.

Estonia's large and impoverished pensioner population is being courted by ex-Communist politicians promising to ease the pain and change the face of government with older, more saasoned and less dynamic leaders.

> The country is divided along stark geographic and generational lines. The young and urban elite are the standard-bearers of the new Estonia

"Everyone should be able to buy meat and sugar," said Ms Mäeot Helju, a pensioner, who receives less than $50 a month. "You have to think about us, too – not only that in 20 years Estonia will be like Finland."

Farmers claim to have also suffered from a lack of tariff protection and subsidies under an open-border policy designed to encourage export strengths in areas such as technology and textiles. Land reform is a centre of political disputes, and there is a backlash over privatisation, popularly considered to benefit criminals and political insiders.

The last opinion poll before the election showed that, of the six largest parties, the two popular with farmers and tha elderly were leading with 43 per cent of the vote.

Mr Arnold Rüütel, a Brezhnev-era leader in Tallinn, could win power. His Peasant party is paired with the centre-left Coalition party headed by Mr Tiit Vähi, prime minister in 1992 and now Tallinn city council chairman.

Another popular candidate expected to slow reforms is Mr Edgar Savisaar, who headed the last Estonian government under the Soviet Union. Reformers worry about these parties' commitment to privatisation, land reform and liberal trade, but a complete reversal seems unlikely.

The Fatherland group – in a country of only 1.6m people where parties are highly personalised – is disliked as much for its perceived youth and arrogance as for its economics. All of the six main parties are broadly pro-market.

Mr Andres Tarand, the centrist who became prime minister last year after a scandal brought down the Fatherland premier, is again tipped to re-emerge as e compromise leader.

He argues that Estonia's reforms are irreversible: "A pegged kroon and a balanced budget are something like a religion."

Amid the electoral excitement, a Russian shadow hangs over tiny Estonia. Although the last Russian soldier left a year ago, relations remain tense over unsettled borders. To Russia's irritation, Tallinn condemned the Chechenya war. Meanwhile, Moscow criticises Estonia's treatment of the large Russian minority, who lack citizenship and could not vote yesterday.

With a history of dictatorial rule casting doubt on Estonia's commitment to democracy, Mr Tarand admits the current political situation is flawed, with so many Russians unable to vote.

Both Russians and Estonians will have to "psychologically adapt" to the new situation, Mr Tarand says, and this will take time.

NEWS: ASIA-PACIFIC

EU set to raise China toy quotas

By Caroline Southey in Brussels

EU member states are expected today to agree a 30 per cent increase in the value of their quota on Chinese toy imports, partly to accommodate the effect of Finland, Sweden and Austria joining the union.

The introduction of EU-wide quotas on Chinese products caused an uproar last year, when 6,417 national restrictions were replaced. Importers of silk products and toys complained that the ceilings were too low, and quotas were quickly filled.

Chinese officials bad suggested that the quotas were set low as part of a longer-term trade negotiating strategy by Brussels. The quota system was also challenged by the UK Department of Trade and Industry in a case that is still before the European Court of Justice.

Spain, the strongest advocate of the toy quota system because of concerns about the effect low-cost competition would have on local toymakers, is expected to reserve its position at the EU foreign ministers meeting today.

The increase for toys would raise the annual quota to Ecu1.06bn (£830m), with the quota for soft toys up 29 per cent, and toy guns up 19 per cent.

The quota increases exceed what was necessary to accommodate the three new member states. However, it still leaves the quota below the 1993 level when the 12 member states imported Ecu1.15bn worth of soft toys from China.

"It still means there will be a shortfall and most member states recognise the quotas are disproportionate and should be scrapped," an official in Brussels said. "The only consolation is that the figures were awful before and are less awful now."

Smaller quota changes are also likely for porcelain (a 2 per cent rise), ceramics (3 per cent), glassware (12 per cent) and radios (3 per cent).

Li Peng urges action on state enterprise reform

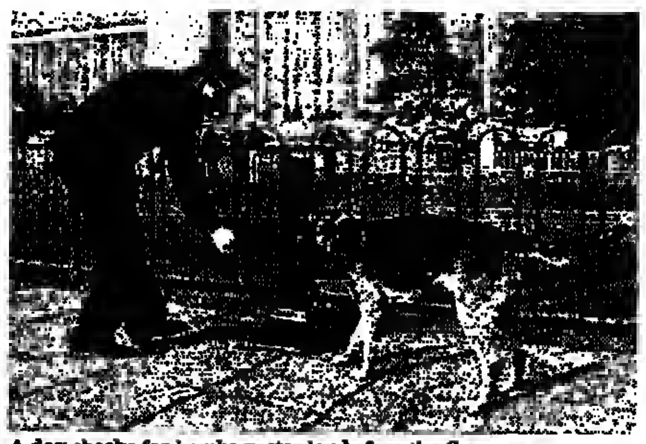
Chinese PM's address to Congress avoided reference to the next generation of leaders, writes Tony Walker

Premier Li Peng's "state of the nation" address to yesterday's opening of the National People's Congress, the Chinese parliament, contained few surprises beyond an admission of shortcomings in economic policy.

As expected, he emphasised themes of stability and consolidation while trying to give the impression that the reform momentum would be maintained.

Left out of Mr Li's 16,000-character address was any reference to China's main preoccupation at present, the transition from one generation of leaders to the next.

Mention was made of ailing senior leader Deng Xiaoping, but only in the context of his contribution to current Chinese economic theory. This was summed up in the phrase "building socialism with Chinese characteristics".



A dog checks for bombs yesterday before the Congress AP

This year's NPC, which will last for about 10 days, may well be the last big formal occasion of the Deng Xiaoping era, which began wben Mr Deng re-emerged in 1977 after being purged three times during the Cultural Revolution of 1966-76.

Mr Deng's failing health and expectations that he will not live much longer is adding political edge to this year's deliberations. The performances of aspiring leaders are certain to be subjected to careful scrutiny by delegates representing industry, the bureaucracy, the military and agriculture.

The opening session was dominated by Mr Li's "work report" for 1995, which sets out a blueprint for government policy. It established the following priorities in addition to the anti-inflation fight:

- Continued fiscal and monetary restraint.
- Accelerated state enterprise reform.
- The further development of a social security system to support enterprise reform.
- Increased investment in agriculture to ensure continued food self-sufficiency.
- A more selective approach to foreign investment.
- A drive against crime and corruption.

Mr Li singled out enterprise reform as one of the administration's most important tasks, but these commitments have been advanced repeatedly without being acted upon.

"Enterprises which have been operating at a loss for a long time without an end in sight and have failed to repay debts should be allowed to declare bankruptcy," he said.

Mr Li called for a concerted effort to deal with crippling debt problems among enterprises. This included "strict enforcement" of rules for settling accounts.

At the end of 1994 indebtedness among enterprises, the so-called "triangular debt problem", had risen over the year by some 70 per cent to Yn400bn (£30bn).

State sector indebtedness, both the inability of enterprises to pay each other for goods and services, and bad debts to the banks, is proving a huge burden on the economy.

Financial sector reform, including attempts to transform state banks into "real" commercial institutions and not "welfare agencies" for state enterprises, is one of China most pressing tasks.

About one third of China's 100,000 state enterprises at township level and above are in the red. This includes China's 14,000 medium and large size companies which dominate the state sector.

Mr Li also made clear that approvals for big new infrastructure projects would be curtailed.

Mr Li foreshadowed stricter measures to limit real estate investment in so-called luxury developments.

He also said that China would strive to "make better use" of foreign investment "in conjunction witb efforts to optimise the industrial structure and raise the level of tecbnology and management".

In referring to the need for a drive against crime and corruption, another of the preoccupations of the government, Mr Li admitted that "in some areas, public order is poor and corruption is still serious."

Indian police hold nine over shares forgery

By Shiraz Sidhva in New Delhi

Indian police have arrested six securities industry workers, a computer operator and two postmen, after uncovering gangs dealing in tha forged and stolen share certificates of an estimated 185 companies.

Police said the apprehended postmen had stolen share certificates instead of delivering them, and then sold them to a network of unregistered brokers. The certificates were sold at at five per cent of the market value of the shares.

The casa is linked to the Rs50bn (£1.1bn) Bombay market scandal of 1992. Police say that securities industry employees were left with losses after that scandal, and were tempted to turn to crime.

"Many of the sub-brokers [unregistered brokers] involved have no legal standing and were out to recover the money they had lost in the Bombay scandal," Mr Qamar Ahmed, Delhi's deputy commissioner of police, said.

Police said they would refer the matter to the Securities and Exchange Board, the government's stock watchdog, and advise the Board to plug loopholes.

It took police more than a year to investigate the case. They have recovered 780,000 share certificates including those of companies such as Dabur Pharmaceuticals, Torrent Cables, and Triveni Pool, a steel and construction company.

After receiving share certificates from the postmen, the unregistered brokers then sold the original shares to other agents, charging them 25 per cent of the market price. In cases where the original signatures of shareholders were available on share certificates, forged certificates were sold on the market at tha full price.

Separately, a computer operator made copies of shares and sold them to unregistered brokers.

INTERNATIONAL PRESS REVIEW

Karachi violence stumps journalists

PAKISTAN

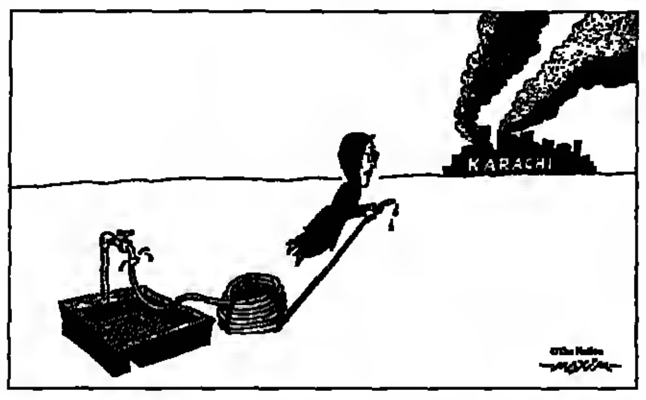
By Farhan Bokhari

The Eid festival, which marks the end of Ramadan, tbe Islamic month of fasting, is traditionally a time for celebration. Bnt for the people of Karachi, Pakistan's largest business city, there was little cause for joy. A renewed outbreak of religious violence in the past week has cast a shadow over the three-day Eid boliday, which ended yesterday.

The killing of up to 29 Shia and Sunni Moslems in three separate attacks by rival gangs not only prompted an armed presence by security forces outside mosqnes; it also provoked intense newspaper scrutiny of the government's handling of security, whicb is getting increasingly out of control in the city.

Nawa-i-waqt, Pakistan's second largest Urdu-language newspaper, was among the most vocal to lead the charge. "How is it possible that our economic lifeline [Karachi] is turning into another Beirut and the government isn't in a position to take action," said the paper, which generally supports opposition leader Nawaz Sharif, the former prime minister.

According to the paper, Pakistan's federal and provincial governments have failed to fulfil pledges to restora law and order in Karachi. The paper described the government's handling of the city's affairs as "half-hearted", and urged it to seek the co-operation of opposition parties in trying to restore calm.



The mass circulation centrist Urdn-language newspaper, *Jang*, focused on the repeated claims of government officials and cabinet ministers that saboteurs trained in neighbouring India, Pakistan's arch enemy, had been sent to disrupt life in the city. Jang criticised Pakistan's border security personnel for their failure to stop the infiltrators.

The paper also urged the government to consider the security implications of the presence of thousands of foreigners in Karachi, who have allegedly entered the country illegally. Jang condemned as bollow earlier statements by ministers promising to take tough action after each outbreak of sectarian violence. "Such statements from the rulers have now lost meaning," the paper said.

In a similar assessment, *The News*, the a middle of the road English-language newspaper, stated: "The latest carnage in Karachi is chilling even by the gruesome standards of the fierce violence that has been slowly killing this city for years now."

But the paper expressed reservations on the government's claims of Indian involvement. It also drew attention to the city's complicated political and economic problems and called for fresh measures to resolve them.

The opposition nationalist newspaper, *The Nation*, examined the notion that Karachi's violence was triggered by growing popular disenchantment caused by a dispute between the government and the city's largest political party, the MQM (Mohajir Qaumi Movement).

The decline in living standards and disruption in essential services, in part a consequence of the crumbling civic administration, had added to the city's woes, it said.

The Nation said: "Both the Shia and Sunni extremists, having committed so many murders of each other's sects and having started the most horribla blood feud in the history of this country, are hardly in a mood to listen to sermons from their elders. In order to tame them, much more stringent measures are required."

The liberal newspaper *Dawn*, Pakistan's oldest English newspaper, took up the miserable lot of the people in its rallying cry. "We have cried ourselves hoarse about the plight of this city. But all the crying in the world seems not to make the slightest difference," it said.

In Dawn's assessment, people's faith in the ability of the police to protect them had suffered badly. "What should the citizens of Karachi do now? Tragic as it sounds, to this question too we bave no answer."

INTERNATIONAL NEWS DIGEST

HK anxious for key poll results

Votes were being counted last night after Hong Kong went to the polls for the last local government elections to be held under British rule.

The pro-democracy Democratic party went into the election as favourite and early indications were that voters in some key areas had given strong support to its candidates.

The elections, for representatives to the colony's urban and regional councils, saw 128 candidates contest 52 seats of the 59 which comprise the two councils. Seven councillors were returned unopposed.

Exit polls indicated that Mr Szeto Wah, a senior member of the Democratic party, had easily beaten Mrs Elsie Tu, 81, a veteran local government official and Beijing adviser. Another leading member of the Democratic party appeared to have trounced the candidate representing the Democratic Alliance for the Betterment of Hong Kong, the Beijing-supported political party in the colooy. *Simon Holberton, Hong Kong*

Iraqi army clashes with rebels

Iraqi opposition members have reported the most serious outbreak of fighting in Iraq since the 1991 Gulf war. The western-backed Iraqi National Congress said at the weekend that Kurdish and Shia rebels had clashed repeatedly with the Iraqi army.

The congress reported that Kurdish rebels began skirmishing with government forces on Thursday after the troops began shelling towns inside a Kurdish safe haven established by the United Nations after the Gulf war.

Iraqi President Saddam Hussein massed troops and armour on the edge of the Kurdish zone at the end of February. The congress said Iraqi artillery on Saturday shelled Erbil, capital of the Kurdish enclave. It added that Shia guerrillas clashed with Iraqi troops on Saturday in Qurna, 250 miles south-east of Baghdad. *John Barham, Ankara*

Wave of arrests in Nigeria

About 80 officers and men of the Nigerian army and air force have been arrested to quell "disaffection" in the armed forces which have governed the country for over a decade, according to military officials.

This is the first publicly acknowledged wave of military arrests since General Sani Abacha took power in November 1993 and follows a series of delays to the political programme which is to precede the military's promised handover to elected civilian rule.

An armed forces spokesman defended the action as routine but failed to dismiss widespread rumours of an attempted coup plot. *Paul Adams, Lagos*

Harsh world for Mexican banks

A bail-out scheme has come too late to save Banpais, writes Leslie Crawford

The Bank of Mexico last week put in place what amounts to a massive rescue plan for the banking system – but it came too late to save Banpais, the country's eighth-largest bank, from technical insolvency.

The central bank's intervention on Friday at Banpais has exposed the banking system'a vulnerability to Mexico's harsh new world of high real interest rates, economic recession and a volatile currency.

Grupo Financiero Asemex-Banpais, which also owns the country's largest insurance company, Aseguradora Mexicana, is the first financial group to be placed under central bank management since the peso devaluation in December. Bank regulators said Banpais failed to maintain adequate capital ratios and committed "irregularities" which placed its financial health at risk.

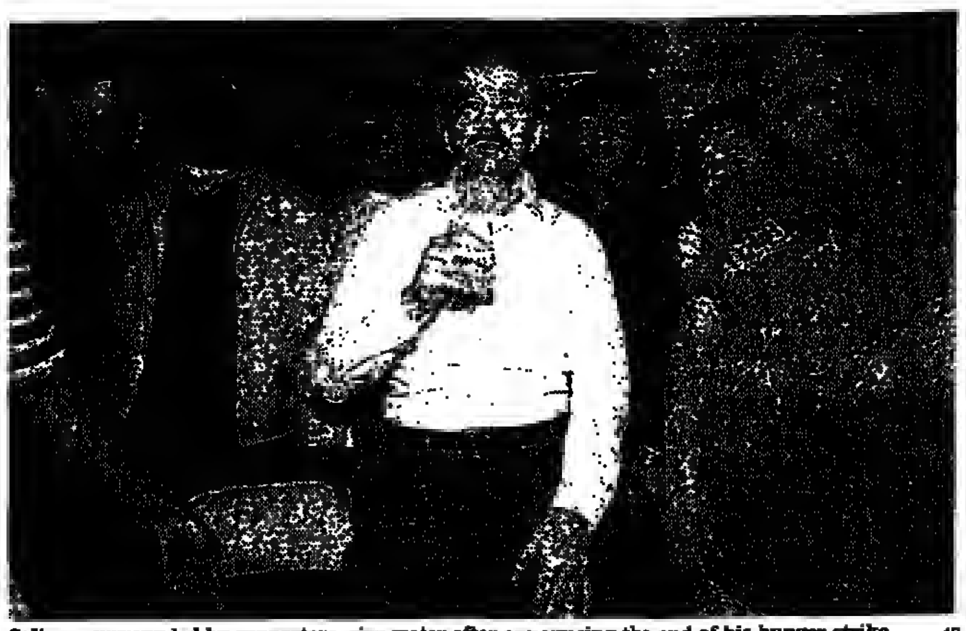
The bail-out scheme came after banking regulators warned that as many as 10 out of Mexico's 16 domestic banks would require hefty capital infusions from the government's Bank Savings Protection Fund, Fobaproa, in order to he allowed to continue operations.

The troubled banks have reported difficulties in meeting the minimum capital adequacy ratios set by the Bank of Mexico primarily because continued depreciation of the peso has caused dollar-denominated assets to grow in peso terms. Banks are also under pressure to raise provisioning against non-performing loans, which have soared since devaluation sent the economy into a tailspin.

Only the country's two largest banks, Banamex and Bancomer, which bold 45 per cent of deposits in tha banking system, have stated they do not need the help of Fobaproa.

Former Mexican President Carlos Salinas has called off a two-day-old hunger strike, saying the government had bowed to his demand to retract serious allegations against him, Reuter reports from Monterrey. The move defuses a tricky situation for President Ernesto Zedillo, who faced an unprecedented war of words with his predecessor last week that threatened the country's political stability.

Mr Salinas, who demanded he be cleared of blocking an investigation into the murder last March of ruling party presidential candidate Luis Donaldo Colosio, told cheering supporters his conditions were being met. He also said he had won assurances the government would "truthfully" explain its handling of the economy, clearing him of blame for the financial crisis.



Salinas, surrounded by supporters, sips weter after announcing the end of his hunger strike AP

Serfin, the third largest bank, said it might need Fobaproa's assistance to shore up capital and reserves. It said it needed 1.2bo pesos to meet a new central bank directive ordering banks to raise provisioning against bad debts to 60 per cent of their non-performing loans. Serfin had already set aside 1.4bn pesos last year to increase its reserve coverage to 40 per cent.

Even before December's devaluation, Mexican banks were making substantial provisions against growing past-due loans, which rose 42 per cent in 1994. Since then, and with the economy deteriorating rapidly, regulators at the National Banking Commission estimate banks will need to find 4.4bn pesos to cover an even greater number of corporate and consumer loan defaults this year. Privete financial analysts put the figure closer to 10bn pesos.

Nominal interest rates have trebled since devaluation as the central bank has tightened monetary policy to combat inflation. Consumer prices rose 6.1 per cent in the first six weeks of the year – against an annual target of 19 per cent, which few economists believe can now be met.

In addition to their capitalisation problems, the banks are trapped in a liquidity squeeze. Income has fallen as loans are restructured and maturities extended to forestall defaults, while the banks' sourcing costs have soared.

The blanket bail-out of the financial system has a catch. Fobaproa will recapitalise troubled banks by purchasing subordinated bonds, coovertible into equity within five years. If a bank has not repaid Fobaproa in full after the five years, the central bank says it will sell its shares. In additioo, banks which seek Fobaproa's help will not be allowed to expand credit until they have repaid their debts to Fobaproa in full.

The loans of Mexico's banking system grew by 36 per cent last year – nine times the rate of growth in the economy as a whole. Analysts regard tbe unchecked expansion of credit as the main cause behind the steep rise in past-due loans, which now total almost 9 per cent of the system's total loan portfolio.

Mexico's main financial groups do oot like the Fobaproa scheme. They risk losing control of the banks they own if their shareholding is diluted by failing to repay Fobaproa in the sbort time-frame giveo. They have accused the central bank of seeking "back-door renationalisation of the banking system," privatised under former President Carlos Salioas.

In the present circumstances, bowever, undercapitalised banks have little choice but to go cap-in-hand to Fobaproa. The dramatic collapse of bank stocks after devaluation – the market capitalisation of the entire financial system has fallen from $26.8bo to $7.24bn – has made new equity issoes unfeasible in Mexico City's battered stock exchange.

The hope that foreign equity partners could be found for some of tbe more vulnerable banks looka increasingly unlikely.

Congress prepares for 'brawl' over tort

By Jurek Martin in Washington

The Repnblican-controlled House of Representatives, which on Friday wrapped up its comprehensive assault on federal regulations, this week turns its attention to one of the most controversial populist issues in its Contract with America – tort reform.

It will consider placing financial ceilings on the damage awards and legal fees payable in lawsuits covering product liability, personal injury and medical malpractice, currently estimated to cost the country about $130bn (£82bn) a year.

Congressman Newt Gingrich, speaker of the House, has already predicted "a brawl" over tort reform, long desired by conservative Republicans. Vigorous opposition has been promised by a coalition of trial lawyers and consumer and environmental groups.

In practice, they may need to focus their attention more on the Senate, about half of whose members have law degrees and whose enthusiasm for Mr Gingrich's Contract is less than in the House.

Environmentalists, as well as the Clinton administration, are further outraged by Friday's passage by the House of the Private Property Protection Bill which strikes at the heart of the government's ability to regulate. It would require the government to pay compensation to any landowners wbose property falls by more than 20 per cent in value as a result of federal laws.

Extending the Fifth Amendment constitutional guarantees of private property against "regulatory taking", tbe bill specifically includes for the first time federal regulations already on the statute books and covering protection of the wetlands, forests and endangered species and allocation of water rights.

Mr Bruce Babbitt, the interior secretary, condemned the bill as "a thinly disguised attack on America's great natural resources".

Eveo some moderate Republlcans broke with the party leadership on the issue with 23 of them joining 125 Democrats in opposition, a total sufficient to sustain the promised presidential veto. One of them, Congressman Sherwood Boehlert of New York, objected more on financial than environmental grounds, saying the bill was "a budget boondoggle whose cost to the American taxpayers cannot be accurately estimated."

But the prevalent mood was expressed by Congressman Jack Fields, the Republican from Texas, who declared "there is a constitutional right to use and enjoy one's private property". Landowners, he said, were "fed up" that their property values were reduced by "bureaucratic, frivolous decisions by regulators".

IMF loan deal to boost Argentina

By David Pilling in Buenos Aires

The International Monetary Fund is to lend Argentina $420m (£268m) and monitor its fiscal accounts every quarter as part of a campaign to restore credibility to the country's economy.

The loans, which were rejected by Argentina last September, will be used partly to repay maturing public debt. A credit cruncb and low confidence in Argentina's ability to weather the storm unleasbed by the Mexican financial crisis have forced the government temporarily to abandon Treasury bill auctions, funds from which were to have serviced debt.

The IMF loans come at the start of a critical week when several laws, deemed vital by the government to rebuild economic confidence, are due to be presented to Congress. The administration bas formed a crisis committee beaded by Mr Domingo Cavallo, economy ministar, aimed at ensuring congressional approval of several tax, labour and social security bills.

Some of these laws are needed to enact the $3.3bn austerity package announced by Mr Cavallo last week, while others are to deregulate labour codes and cap pensions payments. The government bopes the atmosphere of crisis will be enough to persuade an often ill disciplined Congress to co-operate.

Rumours of IMF support on Friday were enough to transform a mid-session stock market slide of 8 per cent into a gain of nearly 6 per cent by the close. Interbank rates, which had hit 90 per cent at one point, fell to 30 per cent by Friday night. The administration bopes the trend will continue this week, belping to reverse months of falling stock and bond prices.

Inkatha defuses SA crisis

By Roger Matthews in Ulundi

South Africa edged back from political crisis yesterday when the Zulu-based Inkatha Freedom party agreed to end its boycott of parliament after a two-day conference in Ulundi. But it accompanied its decision to return with fresh political threats if its demands for substantial regional autooomy are not met.

Mr Mangosuthu Buthelezi, Inkatha leader and minister of home affairs in the government of national unity, led the parliamentary walkout on February 21, saying his party congress would take more emphatic action if President Nelson Mandela did not act decisively. But Mr Buthelezi reverted to a less confrontational approach yesterday despite his fiery language at the time.

The dominant African National Congress had shown little sign of backing away from the line it took after the parliamentary walkout. Mr Thabo Mbeki, deputy president, said then: "We can do oothing about it. Nothing. All we can do is say please come back."

Mr Mbeki telephooed Mr Buthelezi last Friday to discuss asking international mediators to help resolve the autonomy issue, as provided for in an 11th bour agreement last April which allowed the country's multi-party election to go ahead on schedule.

The party congress yesterday expressed its "contempt, condemnation and disdain" at the failure of the ANC and of Mr F W de Klerk's National party to honour that agreement. It said it would withdraw from the process of drawing up a final constitution if its demands on international mediation were not met within a month.

Inkatha will demand that the Zulu beartland of KwaZulu Natal should enjoy exclusive powers on police, education, health and municipal government, together with some tax-raising powers. "The province must have the last word on all these matters," Mr Ziba Jiyane, Inkatha secretary general, said yesterday.

Government moves to deprive part-time directors of eligibility for company schemes

Executives face share option curb

By James Blitz and Peter Norman

The government will this week take its first concrete step towards restricting excessive boardroom salaries and perks by excluding non-executive directors from share option schemes operated by their companies.

Amid growing controversy over the high salaries and share deals offered to company chiefs, the government is to delete non-executive directors from a broad range of part-time employees who will be eligible for company share option schemes for the first time this year. The decision to exclude non-executive directors from Inland Revenue approved schemes will come when Treasury ministers propose an amendment in a clause of the finance bill to be debated by a House of Commous committee this week.

The original clause – whicb would broaden the range of schemes, including pension schemes, in which all part-time workers can be involved – was first tabled by Mr Jonathan Aitken, chief secretary to the Treasury.

Introduction of the clause was partly forced on the government following a ruling on part-time workers' rights last year by the House of Lords, the upper bouse of parliament, acting as a supreme court of appeal. The hroad aim of the clause will be to provide equal treatment for part-time workers, many of whom are womeo. As a result of a last-minute amendment to the clause, however, the government will ensure that part-time directors are excluded from the categories of employees who can benefit from share options.

Ministers said yesterday that the decision on noo-executive directors reflected the prime minister's new-found determinatioo to crack down on executive pay rises.

Mr John Major, the prime minister, surprised MPs last week by saying be found excessive boardroom pay increases in the newly privatised utilities "distasteful" and that he would consider ways to legislate against them. A committee beaded by Sir Richard Greeobury, chairman of Marks and Spencer is considering the issue.

GM cashes in on efficiency gains

Kevin Done on a factory that has overtaken European rivals

General Motors, the world's biggest vehicle maker, is looking with increasing favour on the UK as a manufacturing location in Europe.

It has decided to investigate the feasibility of producing a second car range – the Vauxhall/Opel Corsa – at its plant in Luton, about 90km north of London. The move marks readiness to increase significantly its commitment to production in the UK as it studies capacity needs in Europe.

It previously withdrew all of its new vehicle design, development and engineering operations to Germany, and stopped all engine manufacturing in the UK in 1984.

In recent years it has made great progress in improving the quality and productivity of its remaining vehicle assembly operations in Lnton and at Ellesmere Port in north-west England. Supported hy the UK's much lower labour costs, tha British plants are now among its most cost-effective in Europe and Vauxhall has become consistently the most profitahle carmaker in Britain.

As GM Europe warmed again to the UK it moved first to purchase an increasing share of the components and materials for its European plants from British suppliers, a lead that has since been followed by carmakers such as BMW, Mercedes-Benz and Volkswagen. The group's operations in the UK reached a watershed in the early 1990s, when It decided to huild a plant at Ellesmere Port to produce a range of top-of-the-line V6 engines.

The plant, which opened in late 1992, marked the first time GM had chosen the UK as the sole source for a significant component for its European operations.

Mr Charles Golden, chairman of Vauxhall, GM's main UK subsidiary, said that as a next step it would be "pretty logical" to produce a third car line in the UK. "It would be good for flexibility and it would be good for transport logistics costs," he said.

The Luton workforce may have to agree to new labour conditions, such as the introduction of three-shift, round-the-clock assembly, but it has already proved itself amenable to change, as the UK plant has overtaken some of its rivals in continental Europe.

GM will need more capacity if it is to maintain or raise its share of a European market that is forecast to expaod steadily in the secood half of the 1990s. It is in second place in the west European new car market behind the Volkswagen group of Germany.

GM is already raising capacity at tbe Lutoo plant by 25 per cent to 60 cars an bour or 215,000 cars a year. The extra capacity will come into use in the second half of the year, when the group starts output of the new generation Vauxhall Cavalier/Opel Vectra.

Productivity at Luton has improved sharply from 24.8 cars per employee in 1988 to a forecast 52.2 cars per employee this year.

The plant has reduced the time needed to assemhle a car from about 37 hours in 1990 to less than 26 hours last year.

GM is investing about £130m to modernise and aotomate the plant in preparation for the launch of the new generation Cavalier/Vectra. The investment is expected to raise productivity to less than 20 hours per car next year and to less than 17 hours by the end of the decade. The progress made by Luton means that GM is oow using the UK facility to pilot the introduction of new production methods including the just-in-time delivery of componeots along the lines pioneered at GM's most efficient lean manufacturing plant at Eisenach in eastern Germany, which opened in 1992.

Inveotories have heen greatly reduced and stocks of materials were being turned over 71 times a year in 1994 compared witb ouly 20.7 times in 1988.

The figure is set to rise to 82.6 this year and the plant is already aiming at more than 100 stock turns a year.

GM is also experimenting at the Luton factory with ways of "cascading" knowledge of its business plan tbrough the layers of the workforce and down to supervisors and its teams of assembly line workers.

Mr John Barber, director of the Lnton plant, said the aim was "to replace traditional management controls witb joint ownership of the budget and husiness plan".

In a long-awaited boost for British sports car manufacturing the MGF will make its public debut at the Geneva motor show tomorrow, John Griffiths writes. The launch will be Rover Group's first serious attempt to recapture a share of the world sports car market since closing the MG factory near Oxford 15 years ago. The mid-engined two-seater will sell for between £16,000 ($25,440) and £18,500 ($29,415) when it goes on sale in the summer.

It is being prodnced as a joint ventore between Rover Gronp, now a snbsidiary of BMW, and Mayflower, the Midlands-based specialist automotive engineering gronp. Mayflower's snbsidiary, Motor Panels, has engineered and is manufacturing the bodies for the cars, which are to be assembled at Rover's Longhridge facility in the English Midlands. Motor Panels has invested £24.2m in the design, development and tooling of the MGF, with a further £5m spent on plant and equipment. Motor Panels is believed to have capacity for 20,000 cars a year.

Rover's hope is that the MGF, which uses 1.8 litre versions of Rover's own K-series engines, will enjoy some of the success of the legendary MGB. More than 500,000 MGBs were bnilt between 1962 and the closure of the plant near Oxford in 1980. It was the world's biggest-selling sports car.

Ministry rebukes missile company

The Ministry of Defence has threatened to force aerospace manufacturer Shorts to compete with other companies for follow-on orders for a missile which the company developed, our Defence Correspondent writes.

This bighly unusual move comes because the ministry is dissatisfied with Shorts' progress on the missile contract.

Shorts has a development contract for tbe Starstreak short range air defence missile and an initial prodnction contract, together worth £225m ($357.75m). Bnt the missile was developed for the ministry, so the Britisb government owns the rights to Starstreak and – according to the magazine Flight International – is threatening to bold a competition for further contracts.

Other possible manufacturers would require hlueprints from Shorts, but GEC-Marconi or British Aerospace would be technically capahle of producing the missile. Neither has so far been approacbed hy the ministry.

The first batch of Starstreak bas almost heeo completed, although the programme is several years behind schedule. Shorts says that while the missile has been delayed its contract for development and production is fixed price, so the government has not suffered financially from the delays.

UK NEWS DIGEST

Tesco to open Calais drinks store

Tesco is to become the second UK grocery group to open a store in Calais oo the north coast of France which will sell only alcoholic drinks in order to take advantage of the big trade across the English Channel. The company is opening a 2,500 sq m store called Tesco Vins in Cité Europe, a shopping centre opeoing close to the Channel tunnel later this month. This is the first time Tesco has traded in mainland Europe under the Tesco name and it will be its first alcohol-only store.

J. Sainsbury, tbe UK's biggest grocery group, last year opened J. Sainsbury Bières, Vins et Spiritueux next to the Mammouth bypermarket oo the edge of Calais. In addition to the Tesco store, drinks group Allied Domecq is opening a Victoria Wine off-licence in the $120m Cité Europe centre.

The moves are likely to increase calls for a reduction in UK excise taxes to curb the cross-Channel trade. Thousands of British shoppers have flocked to France to take advantage of much lower levels of excise, particularly on beer, and the removal from 1993 of limits on imports for personal use.

Neil Buckley, Consumer Industries Staff

Forecasters warn on interest rate increases

The Bank of England and the UK Treasury were advised in reports published at the weekend to think twice before deciding on further increases in UK interest rates. Mr Kenneth Clarke, the chancellor, is due to meet Mr Eddie George, the governor of the Bank of England, for their oext monthly review of mooetary policy on Wednesday.

Professor Patrick Minford, head of the Liverpool research group in macroeconomics and one of the Treasury's independent panel of economic forecasters, yesterday warned that higher interest rates carried tbe risk of increasing social discontent. He said the government's policies appeared "designed to court disaster at the next election".

Prof Minford said in the group's quarterly economic bulletin: "Tax rates are unnecessarily high; monetary policy excessively tight, at a time when the labour market is in considerable slack and turmoil, with knock-on effects on the sensitive house and debt markets."

Peter Norman, Economics Editor

'Stooge director' company ceases trading

A company which offered to put stooge directors into failing companies so that the real directors could avoid the wreckage of insolvency has itself stopped trading. Xchange Corporate Resources offered its "substitute director" service as part of a package for clients at a charge of £675 ($1,073) plus value added tax per director. The substitute directors were oormally based offshore.

The case was highlighted by the Insolvency Practitioners Association, which said that up to 30 unlicensed insolvency consultants could be operating in the UK. They said the scheme, though "possibly not illegal", was "extremely misleading, and ill-judged". The services offered by Xchange were not unique but were described by an IPA spokesman as the most hlatant to come to light.

Jim Kelly, Accountancy Correspondent

Industrialists challenge student forecasts

Almost two-thirds of British 18-year-olds can expect to go to university at some point in their lives, almost double the government's estimates, a report by the Council for Industry and Higher Education indicates today. It contradicts the official figure that 31 per cent of the age group goes on to higher education by showing that it does not take account of statistics for mature students.

Once the council projected university participation rates for over-21s, it estimated that the likelihood of an 18-year-old eventually progressing to higher education was about 60 per cent. In 1962 this figure was just 6.5 per cent. The government has set a target of one in three school-leavers going on to higher education, a figure which has already been met.

John Authers, Public Policy Staff

Row looming over plan for phone re-numbering

Further upheaval is in prospect for UK telepbooe users under plans to introduce another numbering scheme after all Britain's numbers change on "Phooeday" next month. Uoder the new plans, telephone users will be faced with two sets of codes for the same UK region, and will no longer be ahle to deduce the destinatioo or cost of a call from the code.

Telecoms operators, managers and telephone users are complaining that Oftel, the telecommunications regulator, is pushing through the changes without adequate consultation. They say the structure of the new scheme is anti-competitive.

Mr Arthur Orbell, numbering scheme manager at Oftel, which is responsible for allocating telephone numbers within Britain, says he is in the final stages of agreeing the details with the telecoms industry. The first of the new numbers – called S-digit 2 codes – could be issued early next year.

British Telecommunications, the largest British telecoms operator, and Mercury Communications, its chief rival, say they want more public consultation before the scheme goes ahead. But Mr Orbell told the magazine Communications Week International, which carries details of the scheme in today's issue: "If you think it's going to be put off indefinitely, you are being misled."

Phoneday, which is thought to be costing Britain about £1bn in changes to systems and husiness stationery, will make available only about 10m new numbers. *Alan Cane*

THIS WEEK

A message from one-armed John

DATELINE

Grand Canyon, Arizona: Republicans are accused of a 'book burning' approach to US science, writes **Jurek Martin**

Not much has been heard of John Wesley Powell recently, perhaps not surprisingly since he has been dead 92 years. American schoolchildren are presumably still taught that in 1869 the one-armed former army major was the first white man to navigate the raging waters of the Colorado River through the Grand Canyon in Arizona.

Members of the Cosmos Club still pass by his portrait in the main hall, identifying him as the founder of Washington's haven for intellectuals. Modern geologists and ethnographers acknowledge thair debt to him, but more between themselves than to the wider world.

Bruce Babbitt did not even mention him hy name in his speech to the American Association for the Advancement of Science in Atlanta last month. But surely the secretary of the interior must have had Major Powell on his mind as he unleashed the sharpest attack yet from a member of the Clinton administration on the Republican Party's determination to dismember the federal government.

Babbitt spoke of "a menacing cloud on the political horizon", in the shape of proposals to abolish government science agencies, worthy of comparison with "book burning". He went on: "It is no longer the spotted owl that is threatened; it is the scientists who have saved it who are now endangered."

Now, this particular cabinet member is not merely another "big government" eastern liberal Democrat fighting to hold the line. He is rooted in the west, an Arizona Babbitt, a former state governor and attorney general. His family, Indian traders to begin with, has helped build Arizona since it became a territory 130 years ago. Today, the only general stores licensed to operate in the Grand Canyon, jewel of the National Park Service crown, bear the Babbitt name.

It was in one of them, at the end of the East Rim Drive, that I came across a too easily forgotten literary gem, a Penguin edition of the lata Wallace Stegner's *Beyond the Hundredth Meridian*, an account of the remarkable career of Major Powell first published in 1954.

Far more than an intrepid explorer, he became, in the 1880s, the greatest bureaucrat of his generation, the laading Washington light of what was known as "government science". He was the effective architect – and second director – of the US Geological Survey, now high on the Republican extinction hit list. The studies he wrote and directed on the importance of water to the development of the arid west were landmarks. The same can be said for his work on Indian tribes.

As the ultimate science-hased – hnt hard-headed – rational man, he believed that there were areas of national policy simply too important to be left to the control of the private sector or local government, each with its own agenda and shortcomings. Asked in 1890 hy a critical senator why the davelopment of the west should not be left to "nature and the common incidents of human life", he replied: "I think it would be almost a criminal act to go on as we are doing now and allow thousands and hundreds of thousands of people to establish homes where they cannot maintain themselves." The market held but abstract appeal for Major Powell.

Naturally, his political and commercial enemies in the west, where the doctrine of unlimited opportunity ruled supreme, eventually cut him down to size. He died in 1902, a prophet mostly without honour in his own land. Yet the political winds soon shifted and the management of scant natural resources in the public domain became a leitmotif of Teddy Roosevelt's administration, including the creation of the park service. No subsequent US government has disowned the Powell legacy, though some, like James Watt, interior secretary in the Reagan administration, have tried.

But today's attempted Republican revolution would, in the cause of getting the federal government off the back of the people, do precisely that. Of course, there are faults in the current hureaucracy that would disappoint the Major's platonic standards, especially in the overstretched and pork-laden park service.

But it is hard to see the point in abolishing the geological survey so soon after its studies had contributed so much to minimising damage in last year's Los Angeles earthquake. Nor is privatisation any solution. That happened to Landsat's aerial reconnaissance programme in the 1980s and it is now back under federal control because the private sector could not make enough money from it.

Powell foresaw this in 1890 when he told Congress that the loss of control by "scientific men", be it to politicians or commercial interests, leads "inevitahly to decays in influence and value". Babbitt said as much last month: "The great irony is that some who rightly oppose irresponsible regulation now seek to destroy [scientific] institutions that help to prevent it."

In fact, the best advice to those intent on tearing down what good peopla have wrought is to stop burning books other than their own little *Contract with America* and start reading a few, leading off with Wallace Stegner on John Wesley Powell. While they are at it, they can keep the lid on unlimited bungee jumping, helicopter flights and fast food in the Grand Canyon as well.

PEOPLE

Hairy start for an untypical banker

John Richardson, Barclays' new man in Asia, has spent most of his career on the customer side of the counter. **Simon Holberton** reports from Hong Kong

John Richardson, like many of his kind, spent most of last week poring over the remains of Barings, the failed British merchant bank, to see if there was anything worth salvaging from the wreckage.

But the newly appointed chairman and chief executive of Barclays Bank and BZW, its merchant bank, in Asia, also found himself wondering if failure to control risky securities trading could bring to its knees the parts of Barclays for which he is responsible.

"It's beeo a pretty hairy start to the year," says Richardson. "Everyone is re-evaluating the basis on which they do business around the world in terms of derivatives."

Last week was particularly testing. Richardson, who decided to accept Barclays' offer to run its Asian operations (excluding Japan and Australia) while he was mounting an assault on Mt Everest last year, is not your typical banker.

Indeed, he has spent all his life on the other side of the teller's counter. Until late last year, he was deputy chairman of Sketchley, the UK dry-cleaner, which he had helped turn round in the late 1980s with Tony Bloom and David Davies.

Before that he worked for Alan Bond – "not the world's greatest listener" – in London. For 18 frustrating months, Richardson, who was born in England but raised and educated in Australia, helped the now failed Australian entrepreneur manage a financial services business that encompassed substantial shareholdings in Morgan Grenfell, Standard Chartered, and M&G, the funds management company.

This experience was not, however, cited by Richardson as a qualification for his new job. He says what he has to offer Barclays and its clients is a 20-year history in Asia that brought him in contact with many of the region's top businessmen and their families.

Most of his time in Asia was spent in Hong Kong, where he worked for Hutchison Whampoa, the colony's oldest company and one of its most venerable trading houses. In 1980, at 37, he was made taipan (managing director), a job he held until he parted with its new owner, tycoon Li Ka-shing, in 1984.

Indeed, Richardson is the second former managing director of Hutchison to head a European bank's operations in Asia. Just over a year ago Simon Murray, who succeeded Richardson to the taipan's spot, took the helm of Deutsche Bank's operations in Asia.

"The allure of the joh was coming back to the east," says Richardson. "I've had a love affair with it for 20 years. Barclays and BZW did need some re-focusing here. There had been a management vacuum for a few years and there was scope for fresh strategies and new ideas."

Richardson believes that the problem for European banks with Asian operations is well known to Australians: the tyranny of distance. This has led to fear and wariness among European bankers about taking on commitments in the region.

He cites his first deal as an example. In January, Barclays was lead arranger for a \$HK2.4bn syndicated loan (originally planned at HK\$1.5bn) to Henderson Land, one of Hong Kong's leading property companies. In London, however, management took some persuading.

"I have known Lee Shau Kee [Henderson's chairman] for 20 years," says Richardson. "London was cautious, but I told them: 'If we can't do a deal with this guy then we can't do business in Asia.' That's where I see my role: trying to steer us on a sensible course. Happily, London supported us."

Europe's fear is based on ignorance. Richardson is critical of banks which move staff around just as they have become acclimatised and made business contacts. "I'm trying to encourage a number of people to stay longer than their normal stint," he says. "I think there are senior careers to be had in product functions in Asia."

He says he is also keen to promote Barclays' senior Chinese managers. The bank will re-introduce its graduate training scheme at the end of this year and will be bringing Asians educated in Britain and the US to Hong Kong. "We need to develop a solid middle and senior management class. I don't see why banks like ours should be expatriate-driven in the long term."

In addition to re-developing a management structure for Barclays in Asia, Richardson has set himself a more difficult task – trying to change the basis oo which Barclays and BZW do business.

"We've really got to learn to get closer to the client. We concentrate too much on what we can do for the client rather than what the client wants. I suspect that is a problem that is group-wide and not just limited to Asia. We have to provide a totally integrated and focused service to the client."

NAMES IN THE NEWS

Robert Weil and the 1990s junk bonds

Robert Weil, the Swedish investor, has never been the most popular figure with Stockholm's rather stuffy business establishment, writes Hugh Carnegy. But the archetypal 1980s whizz-kid has proved he has staying power.

Last week he moved finally to disentangle himself from a still sniffy market by buying out the 63 per cent he does not already control in Proventus, the investment company that has been the main vehicle of his career since the company was first floated in 1982.

For long irritated by the heavy discount Proventus has traded at, Weil, 46, put together a SKr1.4bn bid for the outstanding shares, one-third comprised of two-year debentures carrying interest of 15.3 per cent – junk bonds in plain man's language.

In tune with the tone of the 1990s, Proventus, which specialises in restructuring weak companies and selling them on, is hardly in the most exciting phase of its colourful history at the moment. Its main husiness is its full ownership of Aritmos, a sports goods company whose best known brand is Puma. Since 1982, it has been in everything from banking and insurance, to diesel engines, transport, computers and French retailing.

Weil's most spectacular coup was to sell his cootrol of Gotabanken in 1990 to the insurance company SPP for close on SKr4bn. Within two years, Gotabanken had collapsed and its shares were worth zero. No wonder, as one investor put it, Weil "has never been 100 per cent accepted" by the less prescient bulk of the financial community.

Now the chief question is whether Proventus shareholders will accept Weil's bid – pitched below Proventus' net asset value – or try to force him to raise the offer. The junk bond element suggests Weil's banks are reluctant these days to lend him unlimited amounts to finance his activities. The establishment may yet have a chance to put on some pressure.

Worms' tough action pays off at Suez

When Suez, the flagship French investment and financial services group, reported a FFr 4.7bn loss for 1994 last week, it sent shudders through the French financial system, writes Andrew Jack.

The scale of the losses has raised questions about the future of Gérard Worms – not to be confused with Nicholas Worms, senior partner of Maison Worms – who has headed the group since 1990. Suez's shares have been heading downhill ever since he arrived and are trading at a whopping discount to net asset value. Worms has been criticised for being slow to address the company's problems.

Worms, 58, arrived at Suez after stints at Hachette and Rhone-Poulenc and is well plugged into the corporate establishment; he sits on the boards of Lyonnaise des Eaux, Saint-Gobain, Elf Aquitaine and UAP. He inherited a difficult situation at Suez – the French economy has been in recession for much of his time at the top – and he has not been the best communicator.

Strangely, last week's massive losses at Suez and the decision to pull ont of property may well have increased his chances of survival.

The size of the FFr 7.6bn property provisions has shown that he is prepared to take tough action at last. Suez's shares rose 6 per cent last week – a modest thumbs-up for Worms.

Estenssoro's aims for Maxus

José Estenssoro, chief executive of YPF, Argentina's privatised oil company, is no stranger to the US oil business, writes David Pilling. He spent the bulk of his career running the Argentine subsidiary of America's Hughes Tool Company. But YPF's \$750m bid for Texas's Maxus Energy Corporation has still raised a few eyebrows.

Bolivian-born Estenssoro, 61, led the privatisation of Argentina's biggest company despite strong opposition. In less than five years he has changed it from a chronic, corrupt loss-maker into a lean, profitable company. However, this was achieved at a price – the workforce was cut from 51,000 to 6,500 in the process.

Now he wants to transform it into a multinational oil company. Some have questioned the wisdom of taking over a deht-laden loss-maker such as Maxus and there are douhts about what an Argentine company can add to Maxus operations, scattered as far afield as the Texas Panhandle, Indonesia, China and Tunisia.

But Estenssoro is sticking to his guns. Maxus, he says, will provide YPF with the buman and technological resources it needs to move into the big league.

However, foreign investors are understandably nervous. Only last month Estenssoro was being tipped as a possible successor to Domingo Cavallo, Argentina's economy minister.

If be were to quit, YPF would be a lot less attractive – to overseas investors at least.

FT GUIDE TO
THE TOBACCO BUSINESS

Is the global cigarette industry buckling under a wave of judicial and legislative attacks and falling consumption?
No. Global cigarette consumption is rising slowly again after dipping in 1992 and 1993. Growth in eastern Europe and Asia more than makes up for contraction in north America and western Europe. For every cigarette less smoked in the developed world in 1985-92, three more cigarettes were smoked in China alone. The world smoked 5,170 billion factory-made cigarettes in 1993. That is forecast to grow by 4.2 per cent hy 2000, with Asian volumes growing 54.3 per cent.

But isn't the US, the world's second largest market after China, making life unbearable for smokers?
Not quite. Some 25 per cent of US adults still smoke. However, they are finding it harder to find somewhere to do it. Since a government report linked passive smoking with cancer two years ago, hundreds of cities and five states have banned smoking in public places, including workplaces and restaurants, though less often bars.

Congress and the Food and Drug Administration were making threatening noises last year about smoking. What has happened since?
Mid-term elections. Before last November's elections, US tobacco chiefs were hauled before hard-hitting congressional investigations into the cigarette-making industry. But Washingtoo's anti-smoking fervour blew away overnight with the Democrats' crushing defeats last November. Today's Republican-dominated Congress has no interest in burdening the tobacco industry with more regulations and higher taxes.

But aren't US lawyers more aggressive than ever towards the tobacco industry?
The legislative threat may have gone away, hut the industry is facing an unprecedented wave of multi-billion dollar lawsuits following disclosures by former employees last year that the tobacco companies had known about cigarettes' addictive qualities for decades, yet concealed the evidence.

Who will win?
The tobacco companies, probably. The US may be one of the world's most litigious societies, hnt in all cases so far hrought against the tobacco industry, juries have taken the view that anyone willing to smoke automatically accepts the risks involved because they are so well known. After 700 cases to date, the US industry has yet to pay a cent to anyone except its lawyers.

Who still smokes in the world?
On balance, more people are starting to smoke, or smoke much more, than are giving up. The Russian market was the fastest growing in 1988-93, with volume rising 24.4 per cent. The Poles are the heaviest smokers at 3,620 cigarettes per year per person aged 15 or over. Mozambique has the lowest consumption per adult: only 140. Africa is the least smoky continent, but that is a function of poverty. Even some big tobacco growing countries such as Malawi (190 cigarettes) are small consumers of factory-made cigarettes.

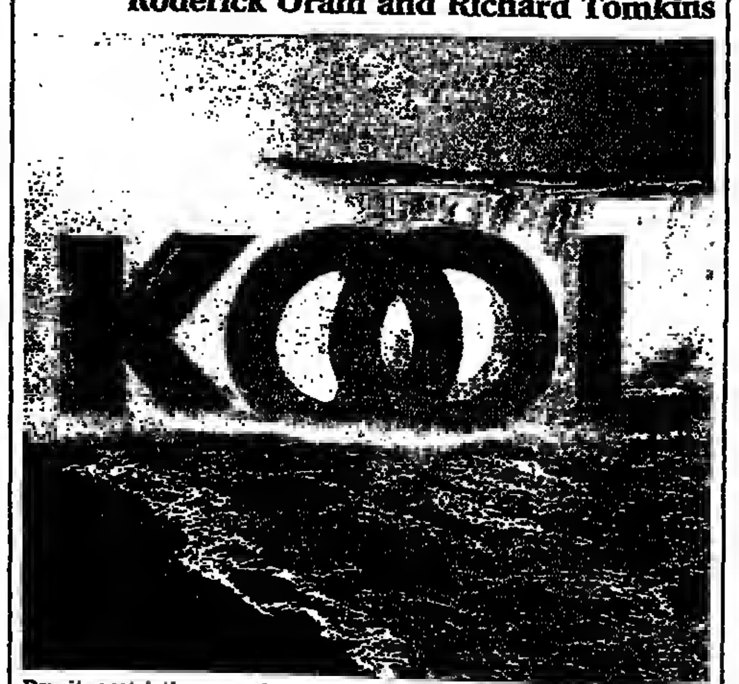
Is the industry profitable?
The top 10 cigarette makers in the US, western Europe and Japan generate operating profits of some \$12bn a year, despite restrictions on companies and consumers. This week sees an annual British stand-off between pro- and anti-smokers: BAT announces its annual results on Wednesday, which is Britain's No Smoking Day. Sir Pat Sheehy, BAT chairman, will defiantly puff his way through a presentation which is expected to sbow a near 20 per cent rise in BAT cigarette operating profits to £1.3bn last year before restructuring costs. BAT is the second largest quoted cigarette maker in the world hut the most international. Its future prosperity hinges on joint ventures it is establishing in eastern Europe and Asia.

What is the response of governments?
Schizophrenic. The US government, for example, subsidises tobacco growing but funds anti-smoking campaigns. Mindful of public pressure and the health debate, even heavy smoking countries are tightening up. Russia and China, for example, are planning tighter advertising restrictions. Some 70 per cent of countries worldwide already ban television advertising of tobacco products.

The industry lobbies hard against them but says such bans in practice have little impact on consumption. Just as well: cigarette taxes support government finances. EU countries raise some \$1bn a week from them. But unequal taxation often leads to smuggling. Drum, for example, is the third largest selling hrand of hand-rolling tobacco in the UK. But it is not sold through legitimate channels. The US government estimates some 200bn cigarattes a year, about 4 per cent of global consumption, are smuggled.

Where are the best and worst places in the world to smoke?
Poland sbould be the best because it's the world's highest consumer at 10 cigarettes per day per adult. But last year parliament created no smoking areas in its own buildings and is now debating advertising bans. Singapore is usually nominated as the worst for its strict bans in many puhlic places. Cigarettes with more than 1.3mg of nicotine or 15mg of tar are outlawed as poisons. Leading full-flavour brands such as BAT's State Express 555 are only just legal.

Roderick Oram and Richard Tomkins



Despite restrictions on advertising, the worldwide consumption of cigarettes is increasing as markets grow in Asia and eastern Europe

SPORT

■ GOLF: *March 9-12: Malaysian Open, Kuala Lumpur; Honda Classic, Fort Lauderdale; Moroccan Open, Agadir.*

□ ATHLETICS: *March 10-12: IAAF world indoor championships, Barcelona.*

■ FOOTBALL: *March 11: FA Cup, 6th round, Liverpool v Spurs, Crystal Palace v Wolves. March 12: Manchester United v QPR, Everton v Newcastle.*
Football's under-20 world youth championship should have started in Nigeria on March 11, but has been "temporarily suspended" by Fifa because of reported outbreaks of meningitis and cholera at two of the four venues. Nigeria, furious, says there are no epidemics near the stadiums. Experts from Fifa's medical committee and the World Health Organisation are visiting Nigeria to make an assessment.

Mexico has dropped out of the running to stage soccer's 2002 World Cup, leaving South Korea and Japan. They have until September 30 to prepare their cases

■ RUGBY LEAGUE: *March 11-12: Silk Cut Challenge Cup quarter-finals, Whitehaven v Featherstone, Oldham v Huddersfield, Widnes v Wigan, Leeds v Workington.*
Luckiest clubs in the draw were Whitehaven and Oldham. They are the only ones in the quarters never to have reached the Wembley final. Yet they have avoided the big guns – holders Wigan and last year's beaten finalists Leeds – and both have home ties. Bookies make Wigan 1-2 favourites. Leeds are 11-4, Oldham 9-1, Whitehaven 50-1.

□ PAN-AMERICAN GAMES: *March 11-26: Mar del Plata, Argentina.*

■ KARATE: *March 12: English championships, Crystal Palace.*

□ CRICKET.
English cricket chiefs gather at Lord's tomorrow for the Test and County Cricket Board's spring meeting. High up the agenda: player power. David Graveney, of the Cricketers' Association, says: "The role of tha professional cricketer in the development of the game must not be overlooked." Players wanted a rise in the minimum wage from £14,500 to £20,000 per season. That was rejected. But they still want a fatter slice of a cake swollen hy new TV money and the prospect of bumper receipts from this summer's West Indies tour. Also wanted: year-long contracts, better insurance and bigger pensions. England has 360 county players.

Michael Thompson-Noel

MUSIC

■ *Music for Queen Mary* (Sony/Arc of Light) commemorates yesterday's 300th anniversary of Queen Mary's funeral service in Westminster Abbey. It recreates the service itself, having been pieced together hy the Purcell scholar Bruce Wood, and features the music of Purcell, Thomas Tollett and John Blow, recorded live in the abbey. Contemporary accounts were glowing in their praise: "I appeal to all that were present," recalled one witness, "whether they ever heard anything so rapturously fine and solemn, and so heavenly in the operation, which drew tears from all." The disc features Martin Neary conducting the Westminster Abbey Choir and an exemplary Purcell cast of Emma Kirkby, Evelyn Tubb, Michael Chance and others.

□ Some of the greatest jazz recordings ever made are celebrated in *The Best of Blue Note* (EMI/Blue Note), a budget priced sampler which picks judiciously from the label's "Top 25" discs. These include John Coltrane's *Blue Train*, Dexter Gordon's *Go* and Miles Davis's *Birth of the Cool*.

■ Billy Ray Cyrus, that all-American slice of boy-next-door-come-good, gets on down with his pals on his third album, *Storm in the Heartland* (Mercury). "Take me to redneck heaven when I'm dead and gone," he sings without apparent irony on one effort, which ends with a metaphysical encounter with Conway Twitty and Hank Williams.

□ *Posthumous Songs* (Sony) is a collection of Lieder by Alexander Zemlinsky, mostly sung with intelligence and intensity by Ruth Ziesak, Iris Vermillion, Hans-Peter Blochwitz and Andreas Schmidt, with Cord Garben on piano.

Peter Aspden

FILMS

■ It is a week of wild women. In *Disclosure*, Demi Moore plays the harpie boss of a computer company who tries to shred Michael Douglas's career when he rejects her advances. Barry Levinson directs Michael Crichton's best-selling novel about role reversal in the sexual harassment arena. Well acted and well crafted, despite a tendency to choke back on the book's melodrama potential.

In *Nell*, Jodie Foster bids for her third best actress Oscar as a true-life wild child found in North Carolina. Britain's Michael Apted directs sensitively, and Foster disappears under an impressive array of tics and tremors.

But Jennifer Jason Leigh performs a bigger vanishing act in *Mrs Parker And The Vicious Circle*. Leigh impersonates famed wit and belle lettriste Dorothy Parker in a brave if over-studious turn. Around her, freer, brighter players pump life into Alan Rudolph's elegant recreation of literary America.

□ In two new movies, men get more of a look-in. *SFW* is the satiric tale of a young hostage crisis survivor (Stephen Dorff) who becomes a media hero. And in *Les Roseaux Sauvages*, four perplexed, pubescent school friends deal with life and love, amid rumblings from France's own growing-up crisis, the Algerian war. Not even *American Graffiti* better captured the moody, music-mad early 1960s.

■ Back to wild women – you can still catch the season's best adventure romp. *The River Wild* has Meryl Streep in top form as a mother guiding her family over Oregon rapids, their rafting holiday threatened hy hijacking crooks.

Nigel Andrews

MANAGEMENT

Taking shelter in an unpredictable world

Swiss Re has adopted a bold strategy in response to sweeping changes in the insurance industry, writes Ralph Atkins

The cigar puffing, Harvard-trained management consultant has been let loose. Since taking over as chief executive of Swiss Re last September Lukas Mühlemann has made all the moves expected of a former employee of McKinsey & Co.

In this period Mühlemsnn has shaken up the world's second largest reinsurer by selling off its peripheral businesses, a move which has resulted in a halving of the group's premium income. He has set an earnings target double that achieved in recent years, and he is devoting management energy to an ambitious new strategy of partnership and product innovation.

Only a pair of red braces would be required to complete the picture of a hard-nosed, profit-orientated practician in the conservative, if not gnomic, world of Swiss insurance and reinsurance. It is an image which Mühlemann – who at 44 is a youngster among the insurance industry's leaders – prefers not to cultivate.

He emphasises Swiss Re's team approach to decision making: "There are some areas where probably the training of McKinsey & Co helps you to short cut some things a little bit. And there are other areas where I'm glad that I have colleagues who have been 30 years in the business." Nor is he the only reformer in the business: Munich Re, the world's largest reinsurance company, is embarking on a low-key internal reorganisation intended to streamline chains of command.

But the strategy Swiss Re has adopted under Mühlemann is undeniably bold, a response to changes affecting all Europe's insurers and reinsurers. (Reinsurers limit insurers' exposure to losses by sharing their risks.) As deregulatioo spreads across the continent – affecting Switzerland despite its position outside the EU and forcing insurers to concentrate on their strengths and cut costs – Swiss Re's tactics could prove a model for others.

"Swiss Re has got a lot of solid fundamentals but it really did need someone who was going to take the organisation into the 21st century," says Heidi Hutter, ex-Swiss Re employee and now head of Lloyd's of London Equitas' "old-years" liabilities project.

It remains unclear, though, whether the remedial action ordered by Mühlemann can fully protect Swiss Re against increasingly ferocious competitive and financial market pressures. So far the stock market has been impressed: the group's shares have risen by more than 20 per cent since his appointment. And as Angus Runciman, European insurance specialist at Barclays de Zoete Wedd in London points ont, just talking about a return on equity "was a major breakthrough for the Swiss".

Mühlemann's first big step as chief executive was corrective, and in many ways a sharp break with tradition. The sale in September of Swiss Re's direct insurance companies – including its 60 per cent stake in Elvia, Switzerland's fifth largest insurance company, and its 62.7 per cent stake in Lloyd Adriatico, the Italian motor insurer – not only marked a deliberate reversal of Swiss Re's strategy in the mid-1980s of smoothing earnings by diversification. As Mühlemann himself says, the decision was "not particularly Swiss. The Swiss mentality is to buy and when you have something you keep it".

The chief executive says the direct businesses were neither large enough to profit from economies of scale, nor nimble and lean enough to rank among the likes of Direct Line, the successful UK-based telephone insurance company owned by the Royal Bank of Scotland. The result had been lacklustre earnings dampening the group's overall profitability and little prospect of a better performance in a deregulated European market.

Mühlemann says: "We could have really built our companies into a network of very strong players in developed markets. That would have taken quite some capital commitment and management expertise. Or we could exit. Given our view of the reinsurance business, which we thought would offer a lot of opportunities and challenges... and where we already had a leading position, we thought that for us it would be more attractive to concentrate on what has been our core business."

Mühlemann says the estimated SFr5.5bn (£2.8bn) raised from the the sale of the direct insurance businesses to, among others, Munich-based Allianz, Europe's largest insurance company, will reinforce Swiss Re's core reinsurance business. Further acquisitions are not top of his agenda. "We will use it [the extra capital] selectively in areas where we are confident about the risk/reward relationships to write more business."

Mühlemann believes that the market for reinsurance products is expanding inexorably with human endeavour. "We [humans] concentrate value more, we have huge infrastructure projects which you can only do if you take care of the risks involved... There is uncertainty about the state social networks in many countries."

Natural catastrophes have resulted in unprecedented losses, he says. But even a Kobe-sized earthquake could have been worse. A strategy based on reinsurance alone has dangers, however. The sector is not immune from volatility in insurance premium rates – and the evidence that world prices are softening has grown.

The unpredictability of natural disasters and uncertainty about global warming could make the industry prone to larger swings in profits and make insurance deals offering the best risk/reward ratio harder to spot. Market entrants, particularly in the fast-growing Bermuda market, are attempting to shake established reinsurers' grip on the market with more aggressive deal making.

Mühlemann has taken steps to ensure Swiss Re is not left behind by such developments. Part of his strategy has involved recognising that even a giant in the insurance industry cannot go it alooe, particularly if, as many observer predict, international financial services industries are likely to converge.

Hence a wide-ranging agreement Swiss Re announced in December with CS Holdings, the financial services group built around Credit Suisse, and aimed at expanding Swiss Re's strengths in product areas for which there is most demand – and which benefit the group's long-term interests.

The deal, which cost Swiss Re an estimated SFr800m and which will help ease the tax implications of the group's extraordinary book gains last year, will firstly extend the group's interests in "financial" reinsurance which accounts for about 10 per cent of its business. Financial reinsurance products, as well as the transferring of risk, involve investing a client's money to provide a guaranteed financial cushion against, say, natural catastrophes. The result can be a less costly solution for clients and lower exposure to risk for the reinsurer.

CS Holdings and Swiss Re have also launched a $200m (£126m) insurance investment fund to foster new insurance companies in Asia. Mühlemann says that providing investment banking facilities as well as insurance expertise could be essential to leading the development of the Chinese market.

Besides extending its geographic reach, Swiss Re hopes the CS Holdings deal will reinvigorate its product range. Another joint venture with CS will develop a range of more sophisticated reinsurance and financial products, including the use of state-of-the-art derivatives (complex instruments whose value is based in part on that of an underlying financial market). The attraction of using derivatives is the potential they offer for increasing the risk-bearing capacity of the world reinsurance industry by taping new sources of finance.

For instance, by trading options on a "catastrophe futures" index, which varies according to the incidence of natural disasters, insurance companies can hedge against catastrophes or carry more risk in the hope of boosting profits. Mühlemann admits such products are at the experimental stage: "There are some people who have actually designed products and sell them but I don't think that we have an established market." But Swiss Re aims to "have the maximum array of tools, of product and product combinations, to find the most efficient and attractive ways of meeting our clients problems. I think that is the philosophy."

With the dangers of derivatives apparent from the Baring bank collapse, Mühlemann is quick to refute suggestions that derivatives might be used in a speculative fashion, making profits swings more pronounced. "We think of it as another technology to manage risks and to pass on the risks to other investors. So we don't see this as something that will increase our volatility. We see this as an additional way of managing our risk."

Mühlemann has set a target return on equity of 15 per cent – approximately double the rate achieved by Swiss Re in the past few years. Part of the improvement is likely to come from investmeot gains. But he is also determined that conservative Swiss underwriting traditions should not be abandoned, even if world premium rates soften.

"The way that we work with our clients is that we take a very long-term perspective. We focus on quality and not so much on year-to-year results. Swiss Re has been here for 130 years and it has paid dividends every year since 1869."

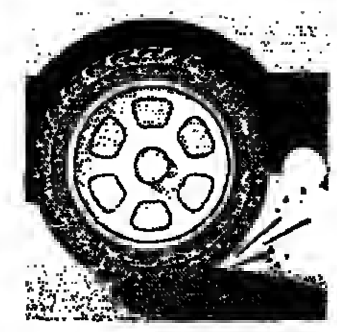
In a bid to enhance earnings Swiss Re gronp has a minority stake in Partner Re, a Bermuda reinsurance company established two years ago and specialising in natural catastrophe reinsurance. Unlike Swiss Re, the Bermuda company can "take a more opportunistic approach", Mühlemann says.

Swiss Re's new strategy, based on the clear goals of building on traditional strengths and improving the return on capital, is easy for an ex-McKinsey consultant to articulate – but he believes it can also be achieved. A 15 per cent return is "ambitious but realistic", he insists. "Some of the world's leading reinsurers meet or surpass this goal every year. We'd just like to be among that group."

As for his own transition from adviser to practician, he sees it as natural. "You are solving a problem. Yon are interacting with people. You want to effect change and you want the business to move into a better position. So intellectually it's very similar. Many of my former McKinsey colleagues could make a successful transition into management. Many of them have done it."

As Hutter says: "There are some consultants who are extremely efficient as consultants, who can look at a situation and make recommendations. But when you are in management you have to make decisions. Mühlemann is the sort of person who is not going to have any difficulty making decisions."

Mühlemann denies having all the right answers; results of the changes at Swiss Re will not be clear for some years. "I always had a big respect for executives when I was a consultant, especially the good ones," he says. "I thought it was difficult and I still do."



FAST TRACK

TomTec Imaging Systems

When European businessmen cross the Atlantic, they usually go to set up a local office not transplant the whole company. But TomTec Imaging Systems did just that, shifting its headquarters to the US from Germany to tap new sources of finance and find new markets.

TomTec (previously Tomographic Technologies) is small, with a turnover of $21m (£13m). Bnt it is the world leader in its highly specialised sector of the medical ultra-sound technology market. It makes electronic equipment to capture digital images of the heart over a time interval.

Its market sbare is at least 60 per cent across its product range. Its customers include General Electric, Hewlett-Packard, Toshiba and Acuson, as well as hospitals and heart centres. It expects to grow by at least 35 per cent a year, with break-even expected later this year. In 1996 it plans to go public on the US Nasdaq exchange.

None of this wonld have been possible if it had stayed in its home base near Munich, Germany. TomTec was able to raise initial finance in Europe but not the bigger sums needed for its next stage of growth. Thus the company had to emigrate, says Peter Klein, 41, president and founder.

The lack of possibilities in Europe for investors to profit through flotations is a complaint some countries are addressing by setting up stock markets for small companies.

But for TomTec, such efforts come too late. It is now based in Boulder, Colorado, having moved to the US in July 1993, when it employed 25 people and had sales of only $1.5m. The company has since raised $20m from Marqnette Venture Partners, Allstate Venture Capital, Platinum Venture Partners and others.

Marquette persuaded it to buy Prism Imaging Systems to complement its product range. Prism was a much bigger company with turnover of $10m making echo cardiograpby equipment to measure heart stress. The merged company, now employing 145 people, makes 25 per cent of its sales in Asia and 28 per cent in Europe and expects soon to have 5 per cent in Sonth America; the rest are in the US.

Before going to the US, it had obtained initial financing of some DM6m (£2.5m) from Mikron, a German microelectronics company, the state of Bavaria, Atlas Venture Capital (a Dutch-based company with a German operation) and the German federal government.

"It seems that in Europe, you can get money for technological development, but when you need to develop the market, yon don't get money," laments Klein. "I think Europe is more technologically development-minded and the US more business development-minded."

When TomTec needed $5m more, it searched in vain in Europe and so turned to the US.

Werner Schauerte, a Munich-based Atlas partner on TomTec's board, says some UK investors were interested – but only if it went to the US or had a US lead investor. "The US market has specialists and yon can look very selectively for the right venture companies."

Andrew Fisher

A minimalist approach to power

ADRIAN FURNHAM

It used to be that there was a positive association between one's power and status in an organisation, and the size of one's desk. Cartoons still show dictatorial, merchant-baron captains of industry seated behind half an acre of polished oak, glaring at a clearly intimidated employee.

In these desks there were drawers, trays and files to store papers and documents. Information was power. But now desks are out and tables are in.

Further, the shape and size of the "designer" office and desk/table reflects a different image. Frequently desks are oval; never square. Often their surface is bare, although tha room should contain a computer terminal, a telephone, e couple of good pieces of art, a few comfortable chairs and a couch. The crucial image, it seems, is one of space, lack of clutter, indeed a minimalist emptiness.

The briefcase – a sort of mobile desk – is an ideal icon of corporate culture. It appears in many forms, the battered leather bag or the designer case complete with gold monogram. Now, however, status is distinguished not so much by shape or material, hut size. Tha new, wafer-thin briefcase is remarkable for not resembling a briefcase at all. The less one can carry the better. This is due to the way in which we now use, store and gain access to information. Top people are briefed hy the underlings who, each in turn, has had to condense information from vast computerised print-outs into pretty computer graphics.

Around the conference table the decision-maker may call for information which has no doubt been carried to the meeting by the lieutenant, in a briefcase slightly bigger than the person's above him. This briefing has already occurred at various levels, each time with an underling providing more and more material and print-outs which the person above selects and edits and so reduces in size.

Thus, as with the porters of David Livingstone and Edmund Hillary, the more one carries, the lowlier one is.

As I said to the Queen, I loathe name-droppers. Businessmen and women, who nowadays are peripatetic itinerants, have started to indulge a newer form of the art: place-dropping.

Like name-dropping, this is also a form of showing off, but naturally involves saying where one has been, on business or holiday.

Modern place-dropping depends on two factors. The first is the exclusivity of the place dropped. The exclusiveness may be obtained in many ways, hut the most usual is by wealth.

Most of the best places to drop are far away and hence expensive to get to. Occasionally a place may be out-of-bounds, privately owned or exceptionally remote and hence very exclusive. But exclusivity is not enough.

The second critical factor is authenticity. One's experience of the place in question must be authentic in that one does things as a native not as a tourist. The essence of authenticity is that one meets, interacts with, behaves as and hence gets a deep insight into, the natives.

Go somewhere exclusive – Cuba, Tashkeot, Pitcairn, and do something authentic – examining Stalinism's effects on manufacturing, making yak hutter. You won't get any points for sunhathing in Majorca.

The other day, I heard of the posthumous award of a PhD. Its topic was the psychology of procrastination and was submitted after her death, by the granddaughter of the student. So it is true that psychologists study their own problems.

Psychologists, of course, are interested in dysfunctional procrastinators which they have divided into two types. First there are decisional procrastinators, who delay thinking about conflicting alternatives and avoid stressful confrontations. They tend to claim forgetfulness, or simply being too busy. Decisional procrastinators apparently try to create situations whereby they never have to commit themselves to a choice, requiring others to make decisions for them, who in turn can, if necessary, be hlamed for failure.

Behavioural procrastinators delay doing things to protect their vulnerable self esteem from failure. Thus by avoiding doing something, the procrastinator's perceived (or actual) inability at the task is never tested: they can maintain the illnsion and possible reputation for talent. Research confirms that people who have low self-confidence give up more easily and construct self-serving accounts of why the task is never finished.

So decisional procrastinators are interpersonally dependent people who tend to be submissive and rely on others, whereas behavioural procrastinators simply have low self-esteem. It does not take psychological research to demonstrate that chronic procrastination of any type is desperately handicapping. But perhaps some don't realise how much it says about one's underlying pathology.

BUSINESS TRAVEL

BA goes east

British airlines can now fly to all 14 of the new states formed following the break-up of the Soviet Union, says Lord Goschen, minister for aviation and shipping. His announcement follows the recent signing of an agreement with Turkmenistan. Air services arrangements have now been agreed with all states, covering scheduled and charter flights. The agreements reflect Britain's wish to support the new states, Goschen said.

New flights

British Airways has resumed flights to Beirut after a 12-year gap. The twice-weekly service from London's Heathrow airport (Mondays and Saturdays) follows resumption of flights to Jordan late last year. Next month BA plans to start a service to Syria.

● Low fares to Northern Ireland from London are being offered by Air Belfast, a new airline which has started a London Stansted-Belfast service. The airline is offering £70 no-restriction return fares – far cheaper, it says, than its main rivals on the route, British Airways and British Midland, which both fly from Heathrow. Air Belfast has five flights a day in each direction.

Window seats first

United Airlines has come up with new boarding procedures to prevent aisles clogging with passengers, writes *Michael Skapinker*. On its US west coast Shuttle by United service, the airline has stopped asking customers to board according to seat row. Instead, it now asks passengers with window seats to board first, followed by those in the middle, then those on the aisles. Result: window passengers no longer have to ask other passengers to leave seats into which they have just settled.

Unusual claims

Britain's "unluckiest" traveller, who claimed to have lost a suitcase nearly every time he flew, was jailed for 18 months for insurance fraud last week. Alak Krishnan made claims to various insurance companies totaling more than £85,000 ($135,000) for lost or damaged baggage on international flights over a two-year period. He would "lose" bags by checking in several empty cases, then packing them one inside the other at baggage claim counters at journey's end, prosecutors told a London court.

US air growth

Air travel should grow steadily in the US, and fares will get cheaper, forecasts the Federal Aviation Administration. It expects the number of US domestic air trips to grow 4 per cent a year from 501m in 1995 to 754m in 2006, and the number of international trips by US carriers to rise by 5.2 per cent a year to 30.4m in 2006. Latin American and Pacific traffic is expected to grow fastest. "Obviously we are still expecting strong fare competition", said an FAA policy planner. "And some older carriers are experiencing difficulties. It's going to be a challenge."

Code sharing conduct

British Midland has appealed to other airlines to join it in drawing up a code of conduct on code sharing, writes **Michael Skapinker**. Code sharing is when one airline puts its own code on a flight operated by another so that passengers can be transferred, sometimes without their knowledge. British Midland has code sharing arrangements with a large number of airlines. Austin Reid, the airline's managing director, says the practice should only be allowed when it increases rather than restricts competition. But code sharing between two airlines on the same route sometimes results in one dropping out, he says.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	10	12	14	[illegible]	[illegible]
Hong Kong	23	25	26	24	23
London	8	10	9	10	[illegible]
Frankfurt	8	7	8	9	11
New York	11	14	16	[illegible]	[illegible]
L. Angeles	19	21	18	17	19
Milan	11	12	12	12	[illegible]
Paris	8	10	10	10	12
Zurich	7	6	5	9	[illegible]

Maximum temperatures in Celsius

Information supplied by Meteo Consult of the Netherlands

Cost of class in Catalonia

With occupancy down to 55%, Barcelona hoteliers are likely to offer special room rates, writes **Nicholas Haslam**

In the days before the 1992 Olympic Games, Catalans used to say that their capital turned its back to the sea. Today, Barcelona must have a crick in its neck. The Olympic village and port, built on the sites of old factories that made Catalonia rich in the 19th century, have laid open the city's eastern flank to the Mediterranean.

Now, in the post-Games era, two out of three visitors to Barcelona are business people, and in a decade the number of hotel rooms has doubled to nearly 15,000. Shop around, because hoteliers are likely to offer special room rates in a bid to boost occupancy, which has fallen to an average of about 55 per cent.

One of the newest hotels, the five-star Rey Juan Carlos I, lies at the top of the Diagonal, the four-lane highway that cleaves Barcelona from the mountains to the sea. For a town with a class stratification to rival the Indian caste system, the Diagonal provides a social arbiter as telling as any old school tie. The higher you live above it, the better.

The Rey Juan Carlos I is a sleek, tall slab of glass and concrete. Chrome-lined, and with lifts purring up inside its vast atrium, it exudes a business-like efficiency befitting its lofty location.

Its 412 rooms are among the most expensive in town, with double beds costing £180 a night, and the Royal Suite £250. For this, though, you get some of the best views, and – unusually in one of Europe's most densely populated cities – a large garden and swimming pool. There are eight conference rooms, the biggest of which can take 1,500.

However, the Rey Juan Carlos I is at the edge of town. True, Barcelona can be crossed in a few minutes by cab, traffic permitting, but downtown is still a fair way off.

The biggest rival to the Rey Juan Carlos I lies far down on the other side of the city, on the new Olympic port. The uncompromising tower of the five-star Arts hotel rises 44 storeys, and is frooted by an enormous skeletal steel fish.

The Arts, which opened in January last year, looks out of place, and would surely be more at home against the skyline of Atlanta or Houston. Its subtle pastel decor seems at odds with the strong Mediterranean light, which has produced painters such as Miró and Dali.

With 455 bedrooms, which start at £125 a night, and 14 conference rooms, the Arts makes much of its location by the Olympic port.

Those who weary of the Arts' four restaurants should visit the Set Portes. A short cab ride away, it is one of the best Catalan restaurants in a city famous for its cuisine.

The Ritz, on Gran Via, in the centre of Barcelona's commercial district, is rooted in a more languid age. Huge lofty salons, chandeliers and polished parquet floors echo the turn-of-the-century prosperity of the Catalan capital. The Ritz has 155 rooms, nine meeting rooms and six suites. Prices start at £215 a night for a double room.

Not far from the Ritz, the five-star Hotel Claris is a renovated 19th century palace. Converted over five years in a profusion of different styles, it has an endearing charm, with a bizarre combination of furnishings, kelims, or woven rugs, and antiques. In addition to 124 designer-furnished bedrooms, and two conference rooms, the hotel houses one of the largest private Spanish collections of Egyptian art in a museum which doubles as a small reception room.

Bedrooms at the Claris start at £140 a night, and the management is proud of the soundproofing, which renders inaudible the incessant rumble of Barcelona's heavy traffic.

At the top of La Rambla in the centre of Barcelona, a 15-minute walk from the old port, lies the four-star Le Meridien Hotel. Close to Plaza Catalunya and the Gothic quarter, the Meridien has 208 rooms, starting at £90 a night, and 10 reception rooms, the largest of which can accommodate 500 people.

With such a central location, the Meridien is handy for the many shops and restaurants of the old medieval part of Barcelona. Try the Can Lluis restaurant in Calle de La Cera, which is patronised by actors and singers from the nearby theatres. It has some excellent Catalan dishes and wines at reasonable prices, and is little-known by tourists.

Remember that Catalans can be some of the most fervent nationalists in Europe. Buy a phrase book. A few words of Catalan will ease your path through this busy city.

● *Nicholas Haslam flew to Barcelona c/o Iberia, the Spanish state airline. Return fares from London Heathrow start at £130, including airport tax.*

Hotel addresses: Rey Juan Carlos I, 589 Av Diagonal, Barcelona 08014, tel: (343)-448 0808, fax: (343)-448 0607. Arts, 19 Pg de la Marina, Barcelona 08005, tel: (343)-221 1000, fax: (343)-221 1070. Ritz, Gran Via C C 668, Barcelona 08010, tel: (343)-318 5200, fax: (343)-317 3640. Claris, Pau Claris 150, Barcelona 08009, tel: (343)-487 6262, fax: (343)-215 7970. Le Meridien Barcelona, La Rambla 111, Barcelona 08002, tel: (343)-318 6200, fax: (343)-3301 7776.

An hour to spare: **London**

Idiosyncratic house that Soane rebuilt

You are in London, with an hour between meetings. What to do?

Sir John Soane's Museum at 13 Lincoln's Inn Fields, London, is an extraordinary survival. It is the idiosyncratic house rebuilt by Soane, architect of the Bank of England and Dulwich Picture Gallery, to accommodate himself, his family and his eclectic accumulations. Preserved by an 1833 Act of Parliament for the benefit of the public, it remains not so very different from how he left it.

It is a distinctly masculine domain – and a decorator's delight. Walls are the colour of tobacco or putty, wood-grained or "patent-yellow". A dark red "Roman" library-cum-dining room is ornamented with Greek vases, small bronzes, bas reliefs and busts cast from the Antique, and furnished with comfortingly clubbish burgundy leather chairs and dark, gleaming mahogany.

From here one glimpses the Monument Court outside with its curious assemblage of architectural fragments and ammonite fossils flanking a bust of the Farnese Hercules. And so the house continues.

The walls of the little study and dressing room are crowded with neatly numbered marble paws, garlands, friezes and the like. There are *pietra dura* panels, casts of antique gems, an ivory of Inigo Jones, Bandini's model for a figure on his monument to Michelangelo in Santa Croce...not a surface is left uncovered, and everywhere ingenious use is made of mirror, convex, coloured and stained glass.

In the so-called crypt are "catacombs" with cinerary urns and fragments of the cover of the sarcophagus of Seti I. Here, too, Soane cocks a snook at the contemporary vogue for Gothic antiquarianism with his gloomy and picturesquely cluttered Monk's Parlour and its sham ruined cloister outside in the yard.

Above the parlour he built the picture room. Three of its walls cleverly incorporate hinged panels which open to display further pictures – space was always at a premium. Notable here are Hogarth's series of modern morals and manners, *A Rake's Progress* and *An Election*.

Throughout, Soane happily combines the old or antique with the contemporary. One of Wedgwood's "black basaltes" complements his Greek vases; beside a large and impressive Canaletto of the Grand Canal hangs an Italianate view by A.W. Callcott, RA. There are cork models of ancient temples and architectural drawings by Clérisseau, Piranesi, Soane and the brothers Adam. Casts after the Antique rub shoulders with the neo-Classical sculpture of John Flaxman.

Susan Moore

MEDIA FUTURES

Home computer users are being wooed by online services, report **Louise Kehoe** and **Paul Taylor**

Europe's PCs to the phone, please

The European consumer online information market is buzzing with excitement as established service providers target the fast growing number of home PC users and as new entrants prepare to battle for subscribers.

Last week, Bertelsmann, the German media group, joined the fray by announcing that it plans to deliver the first pan-European consumer online service through a 50:50 joint venture with America Online, the fastest growing US online service. Bertelsmann and AOL plan to launch European online services later this year in Germany, France and the UK, and intend to expand into other countries including Italy and Spain in 1996-97. The German group will contribute more than $100m (£63m) to the launch while AOL will provide its technology and access to the broad content base of its US service.

Thomas Middelhoff, a Bertelsmann board member, predicted 1m subscribers for the new European online service and DM1bn (£400m) of revenue by 2,000. Bertelsmann said it expected the venture to break even in 1998 or 1999.

The timing of the Bertelsmann/America Online move is crucial. More than a decade after the first online services went live in the US, home computer users in Europe equipped with a modem – devices which enable computers to exchange information with each other over ordinary telephone lines – are starting to join the information superhighway.

Onlina services typically provide a wide variety of news, special interest and hobby groups, entertainment and electronic mail.

While such services are increasingly linked to the Internet – a global network of computers with an estimated 30m users – they provide a more structured and easier to usa online environmant, geared to the consumer segment of the PC market.

In the US, booming home PC sales are expected to boost the number of online subscribers from around 6.1m at the end of 1994 to close to 10m this year.

Europe is far behind, with only CompuServe out of the three big US operators having built np a sizable European subscriber base. CompuServe began its European operations four years ago and now has more than 200,000 European subscribers, mainly in the UK.

Several factors, bowever, are expected to drive rapid growth of online services in Europe:

● Home computer sales have become the most dynamic segment of the world PC market. Pre-Christmas sales of multimedia PCs from companies such as Compaq and Packard Bell, most of them equipped with communications capabilities, were particularly buoyant. There are now about 10m home PCs in Europe.

● The price of modems has fallen greatly in the past year. And modems have got faster. Last year, modem sales in Europe grew by almost 40 per cent, according to Dataquest, a market research company. By 2000, about 15m home PCs in Europe will be equipped with modems.

● Competition in the emerging European online services market is expected to be intense. As well as the Bertelsmann/AOL joint venture, CompuServe is aggressively marketing its service in Europe, by offering free trial offers and cutting connect-time charges since the start of the year.

Plans have been announced for other online services. Among them is Europe Online, a Luxembourg-based service backed by a consortium of companies including Pearson, publisber of the Financial Times, which plans to launch local servicas in Frencb, Englisb and German by the end of 1995.

Other new European services include Italia Online, backed by Olivetti TeleMedia, and UK Online, a sister organisation, whicb plans to launch an easily accessible flat-rate service later this year.

In Germany, Deutsche Telekom said last month that it would upgrade its limited online computer service, Deutsche Online, to giva millions of Germans access to the Internet. It forecast that in three years, abont 4m Germans would be using online services.

In the UK, the Delphi online service, owned by Rupert Murdoch's News International, has been promoted as a gateway to the Internet since last autumn. Meanwhile, Apple Computer is attempting to market its nascent eWorld network in Europe as well as the US.

These new European services are entering the picture just as the established online computer services industry is scrambling to adjust to the likely entry of another big player.

Microsoft, the world's largest supplier of PC software, has announced plans to launch The Microsoft Network (TMN), an international online service which, it says, will includa a broad variety of information services, electronic shopping, games and social activities.

PC users will be able to access TMN directly from Windows 95, the new version of Microsoft's widely-used PC operating system program, which is scheduled for introduction in August.

Microsoft has indicated that TMN subscription prices will be kept low, and eventually may disappear. Instead, users will pay for the information they access. For example, if a user chooses to subscribe to an online magazine there will be a fee for that service. Other services, such as online customer support for computers and software, will probably be free.

Already, Microsoft has published a list of 50 computer and software companies that plan to offer customer support and direct sales on TMN. Microsoft will also lure PC users who may need help with Windows 95 on to the network for free assistance.

With some 30m coples of Windows 95 expected to be sold in the 12 months after its introduction, Microsoft believes the network could have up to 3m subscribers within a year.

Microsoft's ambitions and other developments such as AT&T's acquisition of Ziff Communications' Interchange Network, a potential US rival, have created a frenzy of activity among established players. America Online, Prodigy and CompuServe are all rushing to expand the local content of their services and to reduce prices.

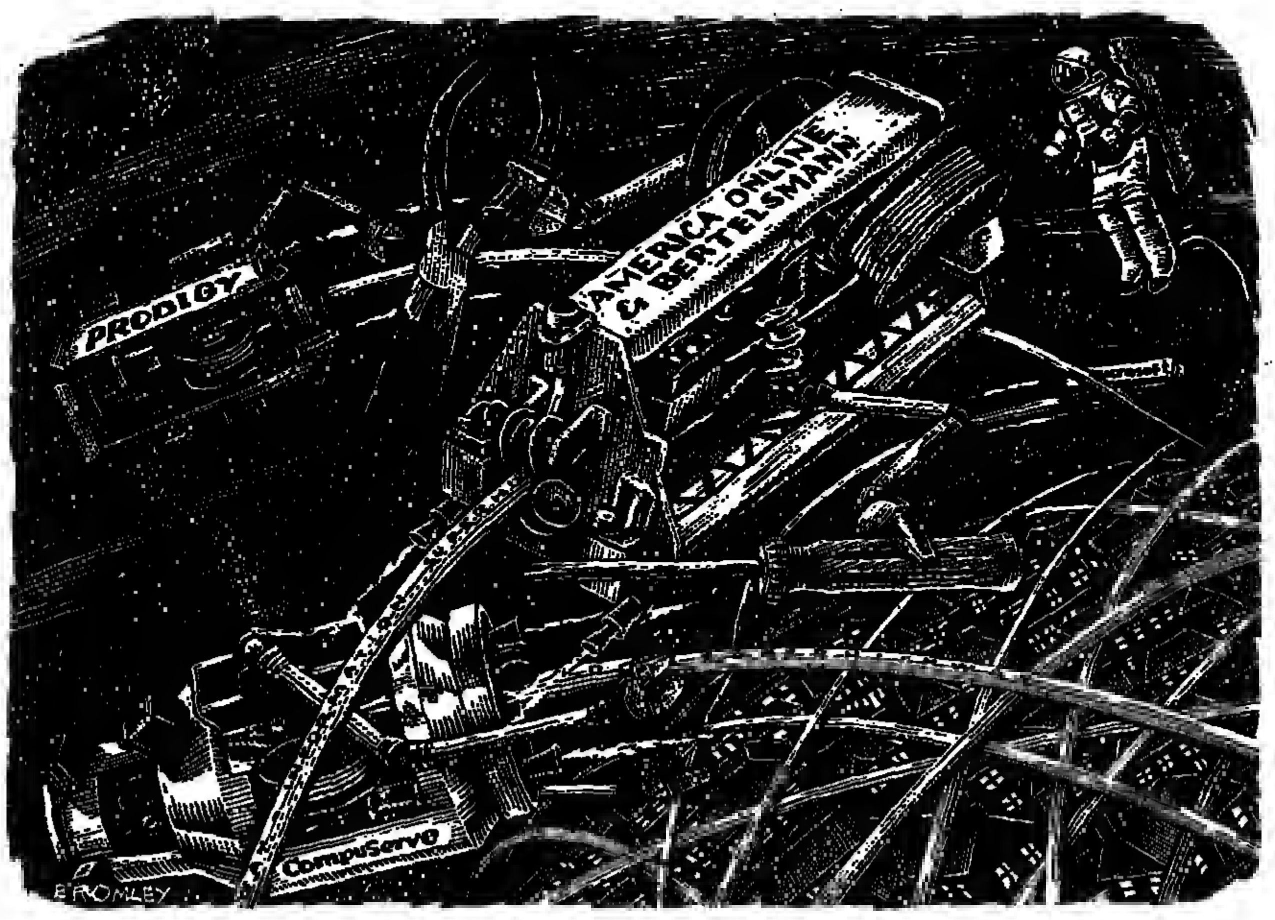
Overall, the online services market is booming. According to Information and Interactive Services Report, a market research survey, the number of subscribers worldwide rose by 40 per cent, or 1.7m, to 6.3m by the end of last year.

CompuServe had an estimated 2.45m subscribers and the Prodigy service, a joint venture by IBM with retailer Sears, Roebuck, had 1.2m subscribers. AOL had 1.5m subscribers at tha end of 1994, according to the December report. Since then, however, AOL has added an additional 500,000 subscribers, bringing the total number of users of online services to approximately 7m, with the vast majority in North America.

Bnt there is considerable room for growth. At present, three out of 10 home PC owners in the US also own a modem but less than a third of modem owners subscribe to an online service. The online service providers are also experimenting with delivering their services via cable networks in the US.

Another important development in the online services field is the explosive growth of the Internet, which increasingly overlaps with commercial online services in offering information, social and communications services. AOL, CompuServe and Prodigy have electronic mail gateways to the Internet. Prodigy also offers access to the popular World Wide Web, with its wealth of multimedia information resources.

In effect, the commercial online services now compete with Internet access providers who typically charge lower fees on a simple hourly basis. Microsoft has said that it aims to create a two-way link between its network and the Internet, allowing its customers full access to the Internet and users of other services full access to TMN.



Dial-up services: the Big Three

● America Online: This is the fastest growing online service. It mixes strong content, including several popular magazines snch as Business Week, with very active online chat "rooms".

Rapid growtb has overloaded AOL's computers from time to time, making it difficult to access. The problems have been largely overcome, the company says, although it recently acknowledged delays in sending and receiving electronic mail messages which now number more than 1.5m a day.

● CompuServe: The only one of the three market leaders that has a significant number of subscribers outside the US at present. It is more oriented towards business and computing with databases and news services that are popular with small businesses and people wbo work from home. It offers numerons "bulletin board" forums aimed mainly at computer hobbyists.

● Prodigy: A service geared to the home computer user with sections for all age gronps. While hampered by a gaudy user interface, it is winning new subscribers with its World Wide Web gateway and expanding content such as the new TimesLink electronic edition of tbe Los Angeles Times.

Mini personal multimedia centres for all

Diane Summers records the burial of 2,000 visions of the year 2045

Here's a date for your electronic diary: March 10 2045.

If you are still around in 2045 you may well be able to have a good laugh when more than 2,000 time capsules, due to be stored all over Britain this Friday, are exhumed and their contents examined. The capsules' contents: today's visions of what life could be like 50 years from now.

The project, organised by Britain's Design Council as part of its recent revamp and 50th anniversary celebrations, has drawn contributions from schools, businesses and professional designers. A popular area for fantasies has been media and communications.

If the same exercise had been conducted 50 years ago, designers may well have failed to foresee the effects of miniaturisation. A common view of computers, for example, was that they would be vast centralised beasts. It was thought that a white-coated technological elite would tend giant super-brains on behalf of the rest of us.

Many of the designs being stored away this week go to the other extreme, predicting that we'll all be carrying mini personal multimedia centres. Time will tell whether these predictions are equally wrong.

One time-capsule contribution from Cambridge Consultants, the technology group, is a combined pocket-sized mobile phone, videophone, camera and "digital assistant" which allows documents to be created and edited using a thimble-type stylus.

Particularly attractive features of this little concept are powerful filters and function keys for easing "the pain and tiresomeness of communication and to prevent the user being called for trivial reasons".

The design journal FX will bury in its capsule a picture of what it imagines the magazine will look like in 50 years. Readers will unfold the thin, flat screen of their computer/notebook/sketchbook/TV/videophone/lottery terminal and call up any combination of features and news. Pictures will spring to life "rendered in three dimensions by user-controllable holography".

Product First, a product development consultancy, was anxious not to be over-influenced by science fiction in its designs, rejecting "anything like people walking around with goldfish bowls on their heads". Instead, it has exploited the communications potential of two bomely objects: the picture rail and the trouser press.

The house of 2045 probably won't look that different from the outside, but in the living room the TV screen, hi-fi and other hardware will hang from an electronic picture rail and will be shunted around at will.

In another room, a workstation that looks like a trouser press, offering screen, fax and other communications services, will spring to life when needed. When its work is done it will fold flat and be wheeled away.

Anyone whose electronic diary batteries have run out on March 10 2045, and who has forgotten where their time capsule has been buried, will be able to contact the International Time Capsule Society, c/o the Department of Ethnography at the British Museum in London. Details (on old-fashioned paper) should have been lodged there by the end of this week.

A hard sell down the line

Advertising is finding its feet in cyberspace, says **Victoria Griffith**

Some users of the electronic highway grumble about unwelcome commercials flitting across their screens. But online advertising looks set to surge.

"We've just seen the tip of the iceberg," says Clifford Friedman, senior managing director of the media and technology section of Bear Stearns, the US financial group. "This area will explode over the next five to 10 years."

Driving the advertising push is the need to bring down costs. Microsoft, which is setting up an online network, plans to use advertising to undercut its competitors. The rest of the industry may have no choice but to follow suit.

"Consumers won't pay full freight for information," says Martin Levin, creative director of interactive marketing at Microsoft Network. "They really think that 35 cents buys them all the information in a newspaper. They'd be appalled if they knew how much it would cost if there were no advertising."

Online services are becoming a more likely advertising medium, say observers, as they change from chat-lines to sources of structured information. With hundreds of newspapers and magazines now online, cyberadvartising doesn't look as out of place as formerly.

"When online services were used mostly for [standard] communications, advertising truly was offensive," says Norman Lehoullier, head of Grey Interactive, a division of Grey Advertising. "It was like someone interrupting a telephone call with an ad. Ads need a contextual environment to survive, and the new [online] editorial content provides that."

An ad for bicycles, for instance, may blend in well with sports news, but would look out of place on a stock market page.

If the growth of online advertising seems inevitable, the form it will take is uncertain. Industry observers differentiate between "unobtrusive" advertising, which offers users the option of viewing a sales pitch, and "obtrusive" advertising, whicb obliges them to viaw the commercial. Often referred to as "in-your-face" advertising, obtrusive ads are the kind consumers are used to seeing in steam-age media such as television and magazines.

Early experiments with obtrusive online advertising were not successful. Consumers complained bitterly when Prodigy dedicated a band at the bottom of its screen to advertisers, and when lawyers advertised their services over the Internet. Because networks are reluctant to alienate users who prefer to wander unhampered in cyberspace, most online advertising is now taking an unobtrusive form.

Some in the industry still believe that obtrusive advertising has a place, though, if it's done in the right way. Last month, Newsweek started to include required-viewing screens in the CD-Rom version of its magazine. Before getting into the programme, the user sees a four-second image of the Dodge Neon car, and the ad is repeated just before the user signs off. Newsweek refers to the spots in traditional magazine lingo as its "inside front" and "inside back" covers, and says that if the experiment is successful on CD-Rom, it may use the format for its online product.

As graphics become more sophisticated and as downloading speeds increase, obtrusive advartising may also gain a more secure foothold. "To be obtrusive, advertisements need to be easy to look at," says Lehoullier of Grey. "You just don't get tbat yet with the simplistic graphics of today's online services." Consumers can also get frustrated if they wait several minutes for something to download and the first thing they see is an ad.

But unobtrusive advertising raises problems for marketeers as well, since viewers must somehow be lured into clicking on the commercial. A few areas are easy sells. Online users who like the movie section of a newspaper, for instance, are likely to delve into cinema previews; a browser of an online fashion magazine may be eager to study Karl Lagerfeld's latest collection.

Most advertisers, though, will probably have to provide some bait. "There has to be some reward, eitber in the form of a game you can play, a discount you can receive, the chance to win a prize or some valuable information you can obtain," says Michael Rogers, managing editor of Newsweek Online.

At one time, online informational adverts were thought likely to be limited to cars, entertainment and financial services – the only types of advert that consumers were expected to want to access voluntarily. Packaged good consumers, though, are now getting into the act in creative ways.

Advil, for instance, has just started to run a pitcb on the New York Times's new Internet service, TimesFax. A button in the shape of a tablet appears on the screen. If users press it, they can read advice on arthritis and back pain. The New York Times calls the experiment a success, with 130,000 "hits" – the number of times readers viewed Advil and two other information options – in the first week. However, the newspaper admits that those figures may be skewed by the adverts' novelty.

Before online services can become a significant advertising forum, however, they must deal with the question of rates. Users are charged for the amount of time they spend online, meaning they must pay to view adverts. AT&T, which is setting up an online network, says it will deal with this problem by turning off the meter wben the viewer is watching commercials. Another option may be to offer rebates to customers who view adverts online.

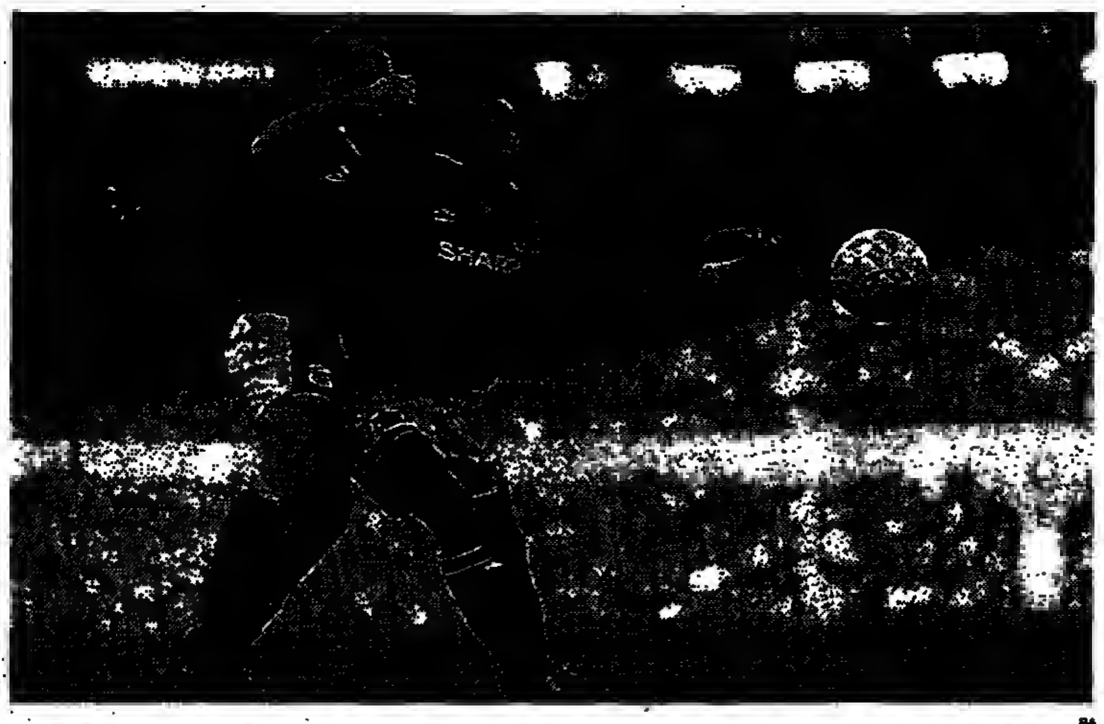
Online services could be a promising marketing tool, but they will have to become far more sophisticated if they want to magnetise advertisers. Graphics need to improve. Advertising formats need to be worked out. Most important, perhaps, online services need to guarantee larger audiences, though if advertising succeeds in reducing costs, it may bring more users with it, willy-nilly.

"We're moving ahead," reckons Wendy Wasutake, advertising manager of the Chicago Tribune's online service. "But I have to admit, at the moment it's a pretty hard sell."

SPORT/ARCHITECTURE

Soccer's 'warrior' nation is fuelled by beer and little pride, writes **Simon Kuper**

Misbehaving for England



PA

Manchester Utd wiped out Ipswich on Saturday (above), but in Europe last year they were humiliated by Barcelona

The Chelsea fans on the Channel Tunnel train last Tuesday were drinking their beers quietly. It was 7am, too early to respond to Belgian provocations. But no one missed the implied criticism when the train manager addressed them faultlessly in four languages.

The fans reached Bruges with nine hours to kill before Chelsea took on Club Bruges in the first leg of their European Cup Winners' Cup quarter-final. They decamped to cafes, or "pubs" as they called them. They did this not for fun, but because an invading army occupies these strategic heights.

Following your team abroad is no holiday. Fans feel they are representing their country quite as much as the players are. The young working class men who travel with English teams think England is a warrior nation. "Two world wars and one World Cup," they chant at German fans. They see themselves as a conquering army.

They ignored Colin Hutchinson, Chelsea'a managing director, who said that by behaving themselves they could "restore some pride to the English game". In their view, they could restore English pride only by misbehaving.

They found few Belgian fans keen to fight, as foreign fans do not see themselves as representatives of warrior nations. At World Cups, the ultimate carnival of peoples, Brazilian fans show off their dances and sexy clothes; the Dutch, to prove that they are extrovert, behave as though they are on a holiday camp outing, as do the Irish; the Scots, to differentiate themselves from the English, behave well. The English wander about with only policemen to fight.

Foreign hooligans are Anglophile. Last Tuesday, the Bruges hard core wore Union Jacks on their jackets stamped with texts such as "You'll never walk alone."

So the Chelsea fans drank. Alcohol makes Danes merry and Russians quiet, and has no effect on the Dutch; who think that getting drunk is uncool. In English males, beer produces aggression.

A boy was stabbed, hundreds of Chelsea fans were deported, and some drunks were arrested. One gave himself away by collapsing into the arms of two policemen. The next day the Football Association, the body that regulates the game in England, said: "We are very pleased with the way things went in Bruges."

The Evening Standard in London also praised the strict Belgian police. The newspaper continued: "Having said that, some may think it's a pity that the Belgian authorities did not appear to possess this robust approach in 1914 and 1939."

Two world wars and one World Cup indeed. If Britain's Euro-sceptic MPs were more honest they would chant that slogan in House of Commons debates.

But fans and politicians are only half the problem. Last month, the Wimbledon player Vinny Jones, in Dublin to see England play, allegedly bit a journalist's nose. Sam Hammam, Wimbledon'a chairman, pointed out that many footballers have recently assaulted people. Dennis Wise, the Chelsea captain convicted of assaulting a taxi driver, may miss his team's home leg against Bruges if he is jailed on March 13.

One sees how these things happen. An English player joins a club at 16, and undergoes initiation rites such as scrubbing toilets. He soon knows no one outside football. He devotes his leisure time to a custom best described by Arnold Mühren, a Dutch Manchester United player in the 1980s: "Wa trained once a day, and then it was time for lunch." Mühren wrote in his autobiography. "But those were lunches where not a bread roll ever touched the table. They also lasted until 9 o'clock at night. Then all the players staggered home. Only a couple never came along."

Paul Gascoigne joined Lazio Roma and kept drinking beer. "As long as I can do my work, there'a no problem," he said. Even before he began getting injured he seldom finished matches, as his stamina would go after an hour. Italian players do not drink. They look gaunter than English players.

An English player can drink; but has to call his manager "boss". If he has a mind of his own he hides the fact, or is transfer-listed.

He panics when he approaches his 30s. He is probably all clapped out from alcohol and perhaps cocaine, but fears life outside the tribe. He knows that George Graham, after his playing career, shifted beer barrels in the pub of his former Arsenal team mate Frank McLintock.

If he makes it as a manager, he gets to be called "boss" and control millions of pounds, some of which he might pocket. He discovers that this is wrong only when people outside football, such as journalists or Kate Hoey, the Labour MP, tell him so.

"It's a very closed world," says Hoey. It is a world immune to new ideas. Graham Taylor managed England against the world'a best teams for four years. When he took over at Wolves, he bought one of the players ha hed encountered: John de Wolf, Holland's unsophisticated and occasional centre half, nicknamed Rambo. Taylor praised him as a typical English defender.

Taylor's England did not qualify for last year'a World Cup finals in the US. Manchester United lost 4-0 to Barcelona last autumn, and most domestic games not involving United or Spurs are a pain. "Chelsea Feared Less Than Rain and Hooligans," said a pre-match headline last week in the Flemish daily, Het Laatste Nieuws. Chelsea lost 1-0.

Yet English teams won the European Cup, the continent's main club trophy, for seven years out of eight between 1977 and 1984. Our players drank then, and our managers were even more blinkered (many of the present crop have played for European clubs).

Perhaps the difference is confidence. "In general they think in England that they are the best," noted Mühren in the good years. Few Englishmen, in football or outside, are quite as cocky now.

World Monuments Fund casts global light on UK heritage

An Anglophile's generosity is bringing a champion of worldwide conservation to London, writes **Colin Amery**

It is not often that $1m is sent across the Atlantic to establish a new charity in Britain. But because America's Paul Mellon is such an Anglophile, he had a benefactor's instinct that he should help support the World Monuments Fund extend its work to Britain. The first stage of the fund's UK launch took place in Spencer House in London last week, and it gets its royal send-off later this month.

What prompted such a generous gift? Because Paul Mellon has seen the fund at work at its home base in New York, he knows how effective it is. He also has a shrewd knowledge of Britain and knows there is sometimes a need for a catalyst to galvanise conservation activities.

One of the most valuable things that this fund does – it is surprising that it is not yet very well known in Britain – is to protect endangered species of buildings around the world. In some ways, I suppose, it has modelled itself on the Worldwide Fund for Nature, which helps to protect animal life. Certainly it has developed a sixth sense that helps it know when to act to save things, and how to identify urgent priorities.

One of the speakers at the fund'a London launch, John Julius Norwich, tha writer and broadcaster, gave a dazzling worldwide tour of the projects that the fund has helped, or where it has been an important catalyst for local help.

His list ranged from the statues of Easter Island to the glorious and fragile temples of Angkor Wat in Cambodia. Tales of the harm being wrought on the temples today by souvenir hunters and sculpture dealers were alarming, for this ravaging follows the damage of two decades of war.

What the World Monuments Fund is doing at Angkor Wat is training young Cambodians for the immense task of repairing and conserving this enormous complex of 12th century temples. It has selected a site – Preah Khan – which is today engulfed in lush jungle, where the extraordinary sculptures are slowly being restored. This work can be seen as a model of conservation activity in that it is creating jobs for the locals and engendering international interest.

The newest area for the fund'a interest is eastern Europe and the formerly communist world, with privately funded operations focusing on important monuments in the Czech Republic and the former Soviet Union.

In the south of the Czech Republic, Valtice and Lednice castles are among the lesser known wonders of Moravia.

The fund has a sixth sense for when to act to save things, and how to identify urgent priorities

Between them lies a huge and wonderful landscape park without any rival in Europe. It has 15 temples and follies, all of which need repair. And thousands of acres of oak woods need careful husbandry.

The castles and their dependencies belonged for 600 uninterrupted years to the Liechtenstein family, a stewardship that ended only with the second world war.

This long period of ownership meant that the castles and their landscapes were always well maintained. In turn, 40 years of communism and institutional use meant seclusion but not destruction.

Now, the World Monuments Fund has seen that the need is to find the right uses for these two great central European castles. The fund is organising international seminars in both castles to prepare restoration plans and devise uses that could save them and their landscapes for perpetuity.

A key decision that has to be taken by the Czech government would entail it agreeing to maintain the common ownership of the two estates and to recognise that they must be kept together. There are some ominous schemes for privatisation of the more profitable parts of these properties which would inevitably destroy their integrity.

Meanwhile, in Hungary, there is a rare opportunity for music lovers and architectural buffs to join in rescuing Esterhaza Castle. Here the World Monuments Fund has combined with the European Mozart Foundation to promote the use of the castle as an academy of music and a performance centre. Esterhaza is owned by the state and run as an agricultural school, with many of its lesser buildings in industrial use. This is the great Baroque house where Haydn was in residence as a composer for nearly 30 years.

Perhaps the most exciting find of the World Monuments Fund is the Alexander Palace in St Petersburg. Although this is well known as the last residence of the czars, it has not been seen since the revolution. Now that its military use is likely to end, there is an opportunity to recreate the last Romanov home.

The czarina and her family had packed all their belongings into boxes and cases. Before everything was taken away, photographs were taken to record each room. The imperial family's belongings were stored in museums and attics, and everything survived. The plan is to persuade the authorities to remove the military remnants that still occupy the palace and to turn it into one of the great tourist attractions of the world.

The World Monuments Fund in Britain will be a new window on the world for British conservationists; equally, its arrival will help shine international expertise on British problems.

ARTS

OPENINGS

LONDON, SADLER'S WELLS
Kim Brandstrup, gifted Danish choreographer, brings his Arc Dance company for a four days season which begins on Wednesday. The repertory which includes his beautiful "Orfeo" (left) and a new "Saints and Shadows".

MUNICH
War of the Sexes is the theme of an exhibition opening at the Lenbachhaus tomorrow. Subtitled The New Myth in Art 1850-1930, it illustrates the influence of contemporary philosophy and literature on sexual stereotypes in art. Artists include Munch, Kokoschka and Schiele.

ANTWERP
Hans Werner Henze's 1960 opera "Der Prinz von Homburg" has enjoyed a renaissance in the past three seasons - thanks to a staging by Nikolaus Lehnhoff which was widely acclaimed in Munich and Zurich. Lehnhoff re-stages his production for the Flanders Opera on Saturday, with François Le Roux in the title role. Based on Kleist's play, the opera is a study of the conflict between duty and emotion.

NEW YORK
"The Man Who" by Peter Brook (above) begins a four-week run at Brooklyn Academy of Music on Saturday, at the start of a season featuring three of the world's leading theatre directors. Next month, Giorgio Strehler's Piccolo Teatro di Milano presents the American premiere of Pirandello's "The Mountain Giants". In May, Ingmar Bergman directs the Royal Dramatic Theatre of Sweden in Shakespeare's "The Winter's Tale" and Yukio Mishima's "Madame de Sade".

LONDON, COVENT GARDEN
In the commemorative year of Oscar Wilde, a new production of "Salome" opens at the Royal Opera House, Covent Garden on Saturday. This production by Luc Bondy originated at the Salzburg Festival. Catherine Malfitano sings Salome together with Bryn Terfel as John the Baptist and Anja Silja as Herodias. Christoph von Dohnanyi is the conductor.

Benefactor or megalomaniac?

Peter Ludwig, collector and chocolate baron, has been accused of cultural imperialism. **Andrew Clark** reports

Within the next three weeks, the German city of Cologne will decide whether to spend up to DM200m (£85m) on re-organising its extensive art collection. The plans are controversial - not just because they involve huge public expense, but because they give the impression that one private art collector, Peter Ludwig, is dictating Cologne's museum policy.

Some of the proposals stem from the need to find a new home for the overcrowded ethnology museum, currently situated close to the floodwater level of the Rhine. But the biggest change has been necessitated by Ludwig's gift of 90 Picasso paintings, to which he has attached various conditions.

Ludwig says the Picassos and associated loans must occupy the Wallraf-Richartz Museum, an ultramodern gallery next to Cologne's medieval cathedral. This means removing a priceless collection of works ranging from the Renaissance to the Impressionists, and building a new museum to house them. If construction is not under way by the end of 1997, Ludwig is entitled to retract his gift. The cost of the new museum is estimated at DM90m.

Cologne's political leaders, anxious to maintain the city's high profile in the art world, say the chance to acquire the Picassos - including a "Harlequin" (1923) and "Woman with Artichoke" (1941) - is too good to miss. The paintings aroused great public interest when they were first exhibited in Cologne in 1993, but Ludwig indicated he was also negotiating with Barcelona and other cities. Faced with the choice of accepting Ludwig's terms or seeing the collection go elsewhere, Cologne found itself unable to refuse. Critics say the influence Ludwig has extracted from this and previous deals far exceeds the market value of his gifts. They accuse him of megalomania and cultural imperialism.

The case highlights Ludwig's double-edged reputation as an art collector and patron. He has amassed one of the biggest private collections in the world - estimated at 20,000 works, ranging from Greek antiquities and pre-Columbian gold objects to Picassos and Pop art. Most of the collection hangs in public museums around Europe, on permanent loan or as donations. But unlike great patrons of old, who left money to house and preserve their collections, Ludwig hands over the art only if public authorities pick up the bill for museum construction, operating costs, cataloguing, conservation and insurance.

He demands a seat on the board of the recipient museum to assure himself a hand in policy. He likes having museums renamed after him: there are now eight - in Basle, Vienna, Budapest, Cologne, Oberhausen, Koblenz and two in Aachen. "He's not a patron in the old sense of the word, although this is the image he likes to project," says Hans Haacke, a New York-based German artist and long-time scourge of Ludwig. "He looks at the tax edvantages, the prestige and political ramifications of every move. He is an extremely vain person who wants permanent monuments erected in his honour, without having to pay for them himself."

He has amassed a huge collection but, unlike great patrons of old, Ludwig hands over the art only if the public authorities pick up the bill

An alert six-foot-two hulk of a man, Ludwig will be 70 in July. For someone who has roamed the earth in search of art, he presents a curiously un-cosmopolitan figure - a bit like a small-town rotarian in a conservative business suit. He was born to bourgeois comfort in Koblenz, and after war service in the German army, he studied art history, writing his doctoral thesis on Picasso - a bold subject for the conservative University of Mainz in the late 1940s.

A fellow student was Irene Monheim, heiress to the Monheim chocolate fortune. After their marriage in 1951, Ludwig joined the Monheim family business in Aachen. He ended up as chief executive and chairman of the board, eventually changing the company's name to Ludwig Schokolade (annual turnover DM580m, worth 20 per cent of the German market). Although he no longer exercises day-to-day control, he still spends a few hours each morning at company headquarters. Peter and Irene Ludwig have no children. Their wealth is tied up in trusts, designed to perpetuate their influence in the art world beyond their deaths.

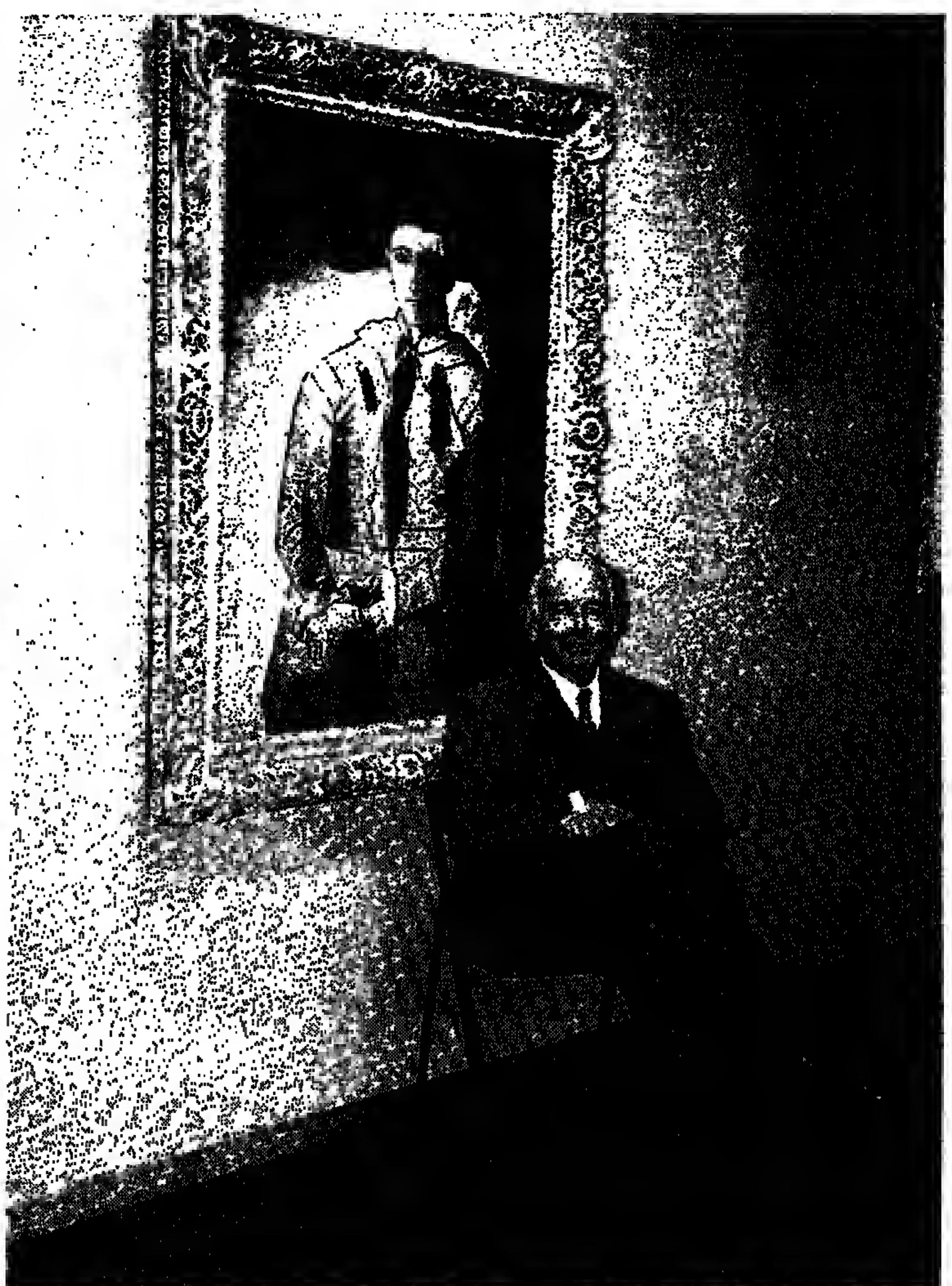
The Ludwigs started collecting while still at university. When the collection outgrew their space at home, they began to offer works to museums - which eased their tax burden and eliminated the cost of insurance and maintenance. Gradually they developed the idea of filling gaps in public collections which, for budgetary or political reasons, museum directors were unable to fill. Aachen's Suermondt (now the Suermondt-Ludwig Museum), Cologne's Schnütgen and Basle's Museum of Antiquities (now renamed Museum of Antiquities and Ludwig Collection) all benefitted from handsome gifts of medieval and Roman treasures.

But Ludwig is best known for the zeal with which he has bought 20th century works, including 800 Russian avant-garde paintings, 170 Picassos mainly from the artist's later years, and the world's biggest single collection of Pop art. Most of these are housed at Cologne's Ludwig Museum.

Ludwig was the first German collector to spot the potential of Pop art. "We see in art an expression of the times," he says - and in Pop art's neon-lit mirror he beheld his own world, the consumer society of postwar West Germany. In the mid-1960s he bulk-purchased from budding New York talents such as Rauschenberg, Warhol, Lichtenstein and Oldenburg, because he knew that "as soon as the Americans realised the true value, prices would rocket". They did - but not before Ludwig had walked away from Lichtenstein's studio with six paintings for which he paid from $5,000 to $10,000 each. They are now worth millions. To mount a representative exhibition of Pop art today, museums have to borrow from Ludwig's collection.

Art experts say Ludwig has exposed the European public to movements which public curators would not have dared to touch. "When Ludwig's collection of Pop art first went on show, it caused a sensation", says the American critic David Galloway, a professor at the University of the Ruhr in north Germany.

"Europeans were suddenly confronted with the latest developments in art on the other side of the Atlantic. Ludwig has also championed South American and Cuban art. He is the only collector who has consistently tried to redefine and expand the horizons of the art world, which is locked into a mid-Atlantic syndrome, exchanging the same things back and forth between Europe and North America."



Peter Ludwig with Picasso's 'Harlequin': best known for his huge collection of Pop art, bulk-bought in the 1960s, Ludwig has exposed the European public to movements which many curators would not dare touch. He is now looking at the art of communist China

Ludwig's interest in art has not been entirely altruistic. Critics say he used his reputation as a collector to open doors for his chocolate business in east Europe before the fall of communism. "He was taken round the exhibitions of officially-approved art in Dresden and Moscow, was allowed to buy wholesale and brought it all beck to Aachen, where he effectively runs the municipal museum," says Haacke. "Here was the big western collector, giving his seal of approval to paintings that no-one in the west wanted to see, and ignoring the underground artists who desperately needed support. This was not, as he claimed, a way of bridging the east-west divide through art. He was keen to establish links with the authorities."

Ludwig is no stranger to controversy. In the 1970s, he tried to create a state-funded national foundation for art - an idea which was torpedoed as soon as he proposed himself as chairman with wide-ranging powers. In 1983, he sold 144 medieval manuscripts to the Getty Museum for DM100m - although the city of Cologne had financed the curating and cataloguing on the understanding they would be lodged in the city. Ludwig has also collected the work of artists favoured by the Nazis. He is now investigating the art of communist China.

Many commentators say Ludwig's reputation would be higher if he adopted a lower profile. "You get the impression he collects for the sake of collecting and for the influence it brings, rather than as a real lover of art," says Christian Herchenröder, cultural editor of the German newspaper Handelsblatt. "With his chocolate business, he could never be more than a provincial tycoon. But as an art collector, his fame is spread over the world."

Concert

Towards the Millennium

Following the arts through the 20th century, decade by decade, becomes more difficult as the journey progresses. Simon Rattle has reached the 1940s in his "Towards the Millennium" festival and it is disappointing that there has not been more wholehearted public enthusiasm for the musical riches that he has selected from that decade.

A less than capacity house turned up at the Royal Festival Hall for Friday's concert. It may be that Schoenberg still frightens people away even 50 years after he wrote his music, or perhaps the tough-looking programme was a deterrent. If the festival's purpose is to sum up tha moral and emotional landscape of each decade as witnessed by its composers, it is inevitable that the forties will carry tha most powerful message of all.

Friday's concert unambiguously presented music in time of war. During the last few years there has been increasing interest in the composers who were silenced during the Nazi decade and one of the most skilled seems to have been Pavel Haas, who died in Auschwitz in 1944. His Study for strings, written in the concentration camp at Terezin, is typically well organised to the point where its orderliness quite belies when and where it was composed.

By contrast, though Schoenberg's *A Survivor from Warsaw* was written after the war and in the seclusion of the United States, all its pain is on the surface. To accompanying shrieks of anguish from the orchestra, a narrator - bere Benjamin Luxon, suggesting barely-contained emotion - relates the story of Jewish prisoners in the Warsaw ghetto going to the gas chambers.

It was a natural progression to follow the Haas and Schoenberg with Tippett's *A Child of our Time.* However large the step in musical terms, all three viewed the events of their decade with a single conscience. Tippett's oratorio about a Jewish boy in 1930s Germany has only just been given a performance in the Barbican's Tippett festival, but this prompt rehearing afforded its own personality. Rattle was less majestic than Colin Davis, giving us a younger man's interpretation, which made up in detail what the City of Birmingham Symphony Orchestra's playing lacked in tonal grandeur. The soloists - Faye Robinson, Cynthia Clarey, Philip Langridge and Luxon again - were not, however, the equals of their Barbican predecessors. The next concert is on Thursday, when Rattle and the CBSO move on to the later 1940s and - more popular, no doubt - the music of peace.

Richard Fairman

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

GALLERIES
Tropenmuseum Tel: (020) 568 8200
● Nomads in Central Asia: over a 1,000 objects on loan from the Russian Ethnographic Museum in St. Petersburg. A multitude of exhibits ranging from a traditional herdsman's tent to embroidered clothing; to Jul 20

■ BALTIMORE

THEATRE
Center Stage Tel: (410) 685 3200
● Happy End: book and lyrics by Bertolt Brecht, music by Kurt Weill. Irene Lewis directs this adaptation by Michael Feingold set during 1920's Chicago; 7.30pm; to Mar 26

■ BERLIN

GALLERIES
Altes Museum Tel: (030) 203 55 0
● Munch and Germany: exhibition of early works by Norwegian artist Edvard Munch and German artists that were influenced by him; to Apr 23

OPERA/BALLET
Deutsche Oper Tel: (030) 341 9249
● Die Zauberflöte: by Mozart. Conducted by Lawrence Foster/ Sebastian Lang-Lessing/Stefan Soltesz and produced by Günter Krämer; 7pm; Mar 10
● Les Intermittences du Coeur: ballet in two parts by Saint-Saëns. Choreographer, Roland Petit; 7.30pm; Mar 9

■ LONDON

CONCERTS
Barbican Tel: (0171) 638 8891
● Opera Gala Night: operatic highlights from the London Symphony Orchestra conducted by Paul Wynne Griffiths. Soloists include soprano Josephine Barstow and tenor Arthur Davies; 8pm; Mar 11
● Pierre Boulez 70th Birthday Celebration: Boulez conducts the London Symphony Orchestra with violinist Anne-Sophie Mutter and soprano Laura Aikin to play Berg, Stravinsky and his own compositions; 7.30pm; Mar 8, 9
Festival Hall Tel: (0171) 928 8800
● Philharmonia Orchestra: with pianist Murray Perahia. Wolfgang Sawallisch conducts Strauss and Schumann; 7.30pm; Mar 11
● The London Philharmonic: with cellist Truls Mork and conductor Mariss Jansons plays Shostakovich and Bruckner; 7.30pm; Mar 8
GALLERIES
Serpentine Tel: (0171) 402 0343
● Man Ray: exhibition of works by the celebrated artist; to Mar 12
OPERA/BALLET
English National Opera Tel: (0171) 632 8300
● Madama Butterfly: Puccini's opera, originally directed by Graham Vick; 7.30pm; Mar 9, 11
● The Cunning Little Vixen: by Leoš Janáček. Original director, David Pountney; 7.30pm; Mar 8, 10
Royal Opera House Tel: (0171) 340 4000
● Giselle: music by Adolphe Adam. A Royal Ballet production choreographed by Marius Petipa after Jean Coralli and Jules Perrot and produced by Peter Wright; 7.30pm; Mar 7, 6
● La Bohéme: by Puccini. Conducted by Simone Young/Paul Wynne Griffiths, directed by John Copley. Soloists include Angela Gheorghiu/Amanda Thane as Mimi and Maria McLaughlin/Judith Howarth as Musetta; 7.30pm; Mar 6
● Salome: by Strauss. A new production directed by Luc Bondy and conducted by Christoph von Dohnányi; 8pm; Mar 11 (7pm)
● Swan Lake: by Tchaikovsky. Choreographed by Marius Petipa and Lev Ivanov, production by Anthony Dowell; 7.30pm; Mar 9, 10
THEATRE
Apollo Shaftesbury Tel: (0171) 494 5070
● In Praise of Love: by Terence Rattigan. Directed by Richard Olivier, this comedy is based on the relationship between Rex Harrison and his wife. With Peter Bowles and Lisa Harrow; 8pm; from Mar 6
Old Vic Tel: (0171) 928 7616
● Conversations with My Father: by Herb Gardener and directed by Alan Ayckbourn. Stars Judd Hirsch; 7.45pm; from Mar 7 (Not Sun)

■ LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
● Fleisher Plays Ravel: with pianist Leon Fleisher and mezzo-soprano Carmella Jones. Lawrence Foster conducts Steiger, Falla and Ravel's "Piano Concerto in D"; 8pm; Mar 9, 10 (1.30pm) , 11, 12 (2.30pm)
● Los Angeles Philharmonic: with violinist Issac Stern. Esa-Pekka Salonen conducts Sibelius, Bruch, Mozart and Bartók; 8pm; Mar 6

■ NEW YORK

CONCERTS
Avery Fisher Tel: (212) 875 5030
● American Symphony Orchestra: with pianist Robert Taub and soloists Christine Goerke and Marietta Simpson. Leon Botstein conducts Mendelssohn and Syzmanowski; 7.30pm; Mar 10
● New York Philharmonic: with baritone Dmitri Hvorostovsky and conductor Valery Gergiev plays an all Russian programme of Mussorgsky and Rimsky-Korsakov; 7.30pm; Mar 7
● New York Philharmonic: Valery Gergiev conducts Liadov, Berlioz and Tchaikovsky; 8pm; Mar 9, 11
● The London Philharmonic: Frank Welser Möst conducts Shostakovich and Strauss; 3pm; Mar 12
GALLERIES
Guggenheim Tel: (212) 423 3652
● Felix Gonzalez-Torres: a comprehensive survey of the contemporary artist's multi-media art form; to May 10
Whitney Museum
● Franz Kline: Black and White 1950-61: Abstract Expressionist works from the last decade of the artist's life; to Mar 12
OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● Der Rosenkavalier: by Strauss. Produced by Nathaniel Merrill, conducted by James Levine; 7.30pm; Mar 7, 10
● La Bohéme: by Puccini. Produced by Franco Zeffirelli, conduted by John Fiore; 8pm; Mar 8, 11
● La Traviata: by Verdi. Produced by Franco Zeffirelli, conducted by John Fiore; 8pm; Mar 9
● Simon Boccanegra: by Verdi. A new production directed by Giancarlo del Monaco.; 8pm; Mar 6, 11 (1.30pm)
THEATRE
Variety Arts Tel: (212) 239 6200
● Death Defying Acts: three one act plays by Woody Allen, David Mamet and Elaine May. Directed by Michael Blakemore and with Linda Lavin, Debra Monk and Paul Guilfoyle; 8pm; from Mar 8 (Not Mon)

■ PARIS

CONCERTS
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● Barbara Hendricks: soprano is joined by pianist Michael Tilson-Thomas to play Mahler, Wolf and Copland; 3pm; Mar 12
● Jennifer Larmore: the mezzo-soprano with the Orchestral Ensemble of Paris. Jonathan Darlington conducts Rossini and Mozart; 8.30pm; Mar 8
● London Symphony Orchestra: with violinist Anne-Sophie Mutter and soprano Laura Aikin. Pierre Boulez conducts Berg and Stravinsky; 8.30pm; Mar 11
● London Symphony Orchestra: Pierre Boulez conducts Ravel, Messaien, Stravinsky and his own 'Messagesquisse'; 8.30pm; Mar 12
OPERA/BALLET
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Magnificat: music by Bach, choreography by John Neumeier. Gunther/Rainer Muhlbach directs this production presented by the Ballet of the National Opera of Paris; 7.30pm; Mar 6, 9, 10, 11

■ WASHINGTON

CONCERTS
Kennedy Center Tel:(202)467 4600
● Ballet National de Marseille: choreographer Roland Petit presents his 1991 ballet based on the style of several Charlie Chaplin films; 7.30pm; from Mar 7 to Mar 12
● Kiri Te Kanawa: with pianist Martin Katz. Works by Mozart, Strauss and Berlioz; 7pm; Mar 6
● National Symphony Orchestra: with soprano Jayne West, tenor Joseph Harris and baritone Kevin McMillan. James Paul conducts Hugo Alfven, Delius and Orff; 8.30pm; Mar 9, 10 (1.30pm), 11
GALLERIES
Corcoran Tel: (202) 638 3211
● Passionate Visions of the American South: Self Taught Artists from 1940 to the Present; to May 7
National Gallery Tel: (202) 737 4215
● The Glory of Venice: exhibition presented by the National Gallery of Art and the Royal Academy of Arts, London containing works by 18th century Venetian artists; to Apr 23
OPERA/BALLET
Washington Opera Tel: (202) 416 7800
● Tiefland: by Eugen d'Albert. Roman Terleckyj directs a new production by designer Zack Brown. In German with English surtitles; 8pm; Mar 8 (7pm)

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Midnight
Financial Times Business Tonight

Why politics should not be a career

MICHAEL PROWSE on AMERICA

One of the moat intriguing elements in tha "Contract with America" – the Republican legislative agenda for the first 100 days – is the promised vote on "term limits". The original plan was to seek a constitutional amendment limiting congressional terms to a maximum of 12 years (possibly aix in the House). But since the two thirds majority needed for an amendment seems unattainable, the House leadership is looking at ways to give states authority to set limits on the terms politicians can serve in Washington.

To put this controversial idea in perspective, imagine the changes it would bring in the UK. Last year Michael Portillo, the UK employment secretary, threw a party to celebrate a decade in politics. After his giddy climb to political prominence, he was doubtless wondering how quickly he might reach the very top of Disraeli'a greasy pole.

Term limits would ruin such ambitious career plans. Instead of looking forward to steadily greater power and influence, the Portillos of this world would be stopped in their tracks. I can just hear the master of ceremonies: "Thank you Michael for all your wonderful service, your time is now up..."

Since politicians have little incentive to impose restraints on themselves, you may be wondering why senior Republicans apparently favour term limits. To tell the truth, they do not now favour them as much as they did when Democrats controlled Congress and thus enjoyed the perks of incumbency. But they intend to honour the contract and they know that limits are very popular with the general public. Since 1990, when the citizens of Oklahoma first voted to limit the terms of their state legislators, the idea has spread like wildfire. Some 22 states have now enacted limits on the terms of state representatives. And opinion polls indicate that 75-80 per cent of voters favour similar limits on the representatives they send to Washington.

Opponents of term limits argue that they are an arbitrary and pernicious restraint on voters' freedom of choice. The point of elections is to allow voters to sack politicians. Forcing senators and representatives to step down after a fixed period would frequently prevent the electorate selecting the best- qualified candidate.

Under such a silly rule, runs the argument, most of the present congressional leadership - including Bob Dole in the Senate and Newt Gingrich in the House - would have departed years ago. They would have been replaced by rookies incapable of providing effective leadership. The net result of term limits would be a shift of power to unelected Washington insiders – congressional staffers, permanent bureaucrats and lobbyists. US government would become even more incompetent.

Such arguments are much less compelling than they look. To complain that term limits would restrict choice is simply to revisit the age-old debate over tha relative merits of rules versus discretion. It is not necessarily foolish for electorates to restrict (slightly) the choice of candidates at any one election if this is likely to broaden their effective choice in the longer term.

At present tha advantages of incumbency are formidable. In the past two decades more than 90 per cent of members of Congress seeking reelection bave defeated challengers. Before November's upheaval (a once in a generation event), the average tenure of those holding leadership positions in the House was 27 years. In a real sense, politics has become a lifetima career – something that would have horrified America's Founding Fathers.

Plato argued that the only kind of person we should want to rule us is someone who would rather do something else. Ideally, politics should be an activity that people enter reluctantly, out of a sense of duty. This is obviously not the casa today: many politicians, probably a majority, enter politics because they seek power and fame.

Term limits are attractive as a means of changing the incentive structure of politics and thus bringing about a change in the type of person who seeks office. The nakedly ambitious, knowing that they would have to bow out after a short period and thus could not expect to attain the highest positions, would be less attracted by politics. Their place would arguably be taken by citizens who have a more genuine desire to serve the community and who regard politics as a brief interlnde in their permanent careers. Politics would cease to be a separate profession and become an activity in which a much larger fraction of the community participates - but for shorter periods.

The argument that term limits would denude the world of great atatesmen and hand power to incompetent rookies is hardly convincing. The performance of today's career politicians is not exactly stellar. Political experience is often irrelevant. Robert Rnbin, the US treasury secretary, has been in Washington for just two years. Yet he is certainly no less qualified to be a finance minister than the many career British politicians who served so ineffectually as chancellors of the exchequer, in part because they had no grasp of economics or finance. Nor is it likely that term limits would shift power to lobbyists and bureancrats. There is always a risk of abuse but, on balance, cynical career politicians seem more likely to form cosy relationships with special interests than idealistic fixed termers.

Term limits should not be seen as a panacea. But I would be willing to support experimental changes in the rules of representative democracy in the hope of improving the performance of politicians. Anything that encourages a little humility in our esteemed leaders is surely desirable.

No thanks from UK parliament

PERSONAL VIEW

Anyone considering an offer to chair the Local Government Commission for England should be sure to view a tape of tha Mother of Parliaments at work last Thursday afternoon: smirking ministers and a buoyant Opposition were disparaging two and a half years' hard work and the views of millions of people.

Political fixes are seldom pretty to watch; and this one was no exception. Ahead of the conservativea' local government conference at the weekend, environment secretary John Gummer needed to demonstrate his "grip" and to have something to offer the Prime Minister, as well as some of his disgruntled backbenchers and the dwindling band of district councillors who thought they were about to take over the county councils.

Labour's Frank Dobson, meanwhile, did not relish the prospect of losing more votes on local government in the House of Commons by large margins, or of trying to persuade Labour's members of parliament for County Durham – including Labour leader Tony Blair – to vote against recommendations they support.

The answer was simple: sack the chairman of the commission thet has caused their problems before its final report is pnblished, secure in the knowledge thet no one will notice that the government has accepted ninety per cent of its recommendations.

The review of the structure of local government in Shire England has been fraught with difficulty from the outset. Neither the government nor the parliamentary opposition knew what outcome they wanted to see; and views within both Parties were (and are) sharply divided. So the commission decided to listen to local opinion with unprecedented care. Predictably, this was viewed with distaste by virtually averyone at Westminster and in Whitehall as a dangerous innovation.

However, the bruising process has brought some unlooked-for benefits – in addition to a substantial increase in the number of all-purpose authorities where these have local support, and the correction of mistakes made by a previous Conservative administration in 1974. County government will survive – against the political odds.

Colin Beere

Sir John Banham: political fixes not pretty to watch

Worthwhile improvements to the existing two-tier system are in prospect and without the need for new legislation - a possibility consistently discounted by the department of the environment. There could even be a more worthwhile role for town and parish councils, whose potential contribution as the first level of democratic government in Britain has been ignored for too long.

> There has been virtually no public discussion of the desirable pace of structural change

But there must be a better way of tackling complex managerial and political problems than horse-trading across the floor of the House of Commons and the occasional dismissal of people unable to defend themselves from Parliamentary criticism. The review of the structure of local government in Shire England is as good an illustration as any of the urgent need for change in the way we govern ourselves. As the chairman of the Local Government Commission, I have had many of my concerns about our system of government confirmed: apart from the commission's work, strategic thinking about the future role of local government or how it should be managed and financed has been scarce.

All the pressures have been to placate the various interested lobbies. Three secretaries of state for the environment, each with different ideas about the review process as well as the desirable outcome, have been involved with the commission's work since I was invited to chair it in early 1992. Detailed policy and procedural guidance to the commission (which ran to well over forty pages) was designed to circumscribe tha Commission's independence of action; and it had to be revised, and the approach and timetable changed, less than a year into what was a four-year programme.

The Treasury demonstrated its obsession with minntiae. Despite an agreed overall budget for the commission (of some £5 million a year), the details of the time each individual commission member would be allowed to devote to its work had to be agreed both by the department of the environment and HM Treasury, as did the details of the performance pay arrangements of the commission'a long-suffering staff. These had still not been agreed a year after proposals were submitted.

> Our politicians are lumbered with the policies and institutions of yesteryear

The government, the audit commission, many business leaders and most professional groups oppose the only change likely to appeal to most members of parliament: unitary authorities based on existing district boundaries. More to the point, a balkanised local government seems to hold very little appeal for the general public in rural areas. Consequently the commission's recommendations have resulted in instant criticism, usually before the critic has read the report and the evidence on which the recommendations are based.

Meanwhile, nearly all the special interests involved seem to have no advice to offar beyond the wish to see the commission start from somewhere else. There has been virtually no public discussion of the desirable pace of structural change or the importance (or lack of it) of local support for any reforms.

Individual members of the commission, as well as its chairman, have been subjected to pressures with which very few royal commissions have had to contend in the past: personal abuse, "off the record" ministerial briefings, leaks of correspondence, a dozen failed appeals to the courts (of justice rather than local opinion), as well as regular calls for resignations.

This is tha system thet produced the Poll Tax, and is failing to tackle the problems of a burgeoning urban underclass, homelessness and an increased need for community care. These require a comprehensive "re-engineering" of tha way local government works; but this is simply impossible under present circumstances.

The role and structure of local government goes to the heart of the way Britain is governed. It provides one of the few checks and balances to the arrogance and moral corruption thet is all too evident in parts of the Quango State.

It makes no sensa for the Mother of Parliaments to be enacting thirteen pages (of mostly ill-considered) law and eighteen statutory instruments every day thet it sits. The voters have noticed that a new era of low demand growth at bome, low inflation and massively increased competition from the Far East has arrived. Unfortunately, our politicians are lumbered with the expectations, policies and institutions of yesteryear.

Changes in the machinery of government (there are twice as many junior ministers today as there were in 1945), in the way parliament works and in the relations between central and local government will not be easy.

John Banham

Sir John Banham was chairman of the Local Government Commission for England until he resigned last week, and is chairman of Tarmac.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

Not a good sign of China's legal intent

From Mr Alberto J Mora.

Sir, The settlement by Citic Shanghai of a legal dispute over trading debts with 14 London Metals Exchange brokers may appear to be good news for those hopeful to see more law and less lawlessness in China ("Citic settles, March 2). However, other developments – notably the case of Revpower – demonstrate that the Chinese government is bent on reducing further the already scant legal protection afforded foreign companies in China.

Revpower is the Hong Kong subsidiary of a US company. When a joint venture to manufacture industrial batteries in Shanghai failed because of improper actions by its China partner, Revpower sought and obtained from the Stockholm Chamber of Commerce an arbitral award now worth US$8m.

The Chinese joint venture partner refused to pay the award and Chinese courts, in flagrant violation of domestic law, refused to adjudicate a law suit brought by Revpower to enforce it. The Chinese government has so far rejected several requests by US authorities – including Ron Brown, the commerce secretary – for China to comply with legal obligations in this matter.

The significance of the Revpower case lies in that the actions of the Chinese government constitute a clear and knowing violation of China's international treaty obligations under the New York arbitral Convention, which requires signatory governments (such as China) to recognise and enforce foreign arbitral awards (such as Revpower's).

Until now, most foreign companies oparating in China inserted arbitral clauses in their contracts in the expectation that impartial foreign arbitral tribunals (as contrasted with the unreliable Chinese courts) would fairly adjudicate any dispute. That expectation, however, rested on the trust that China would comply with its treaty obligations under the New York Convention. Clearly, this trust is now misplaced.

US government officials have declared their intent to continue their efforts to induce China to satisfy the Revpower award and renew its commitment to comply with the New York convention. Until that occurs, however, foreign investors in China should know that the risks incurred from arbitrary Chinese government action are greater than ever. Indeed, legal protection in China, given the Revpower developments, may now be close to nil.

Alberto J Mora,
Holland & Knight,
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Suite 400,
Washington, DC 20037, US

Tell us all

From Mr Fergus Randolph.

Sir, It is suggested by Sir Christopher Lewinton (Letters, March 1) that we should follow the UK government line on Europe.

Does Sir Christopher know something wa don't – thet such a line exists? I think we should be told.

Fergus Randolph,
Ave de la Joyeuse Entrée 8,
B-1040 Brussels,
Belgium

Short term travel answer

From Mr Iain Wylie.

Sir, With reference to the article in your travel page about the new system of automated immigration entry to the US ("Travel card trial", February 27), I was given an INS pass based on frequant travel and an indefinite visa last year. I used it for the first time in February. It entailed entering a card in a machine and presenting a hand for identification. The machine produced the necessary card, and the whole process at Newark airport took about four minutes, by-passing the long passenger lines.

The only problem is that, when it becomes general, the machine queues may be as long as the present manual ones!

Iain Wylie,
31 High Point,
Pirton Road,
Hitchin, Herts SG5 2BH

New Russian farm legislation will further reform of property rights

From Mr Boris Nemtsov and Mr Anthony Doran.

Sir, Your article on land reform in Russia ("New decree threatens Russia farm reform", February 20) inaccurately characterises new legislation as anti-reform when in fact it is the exact opposite. The decree was sponsored by Russia's leading reformer, Anatoly Chubais, the deputy prime minister, and opposed by the conservative Agrarlan perty, contrary to your report. In fact, the Agrarian Party, on February 10, sent an official petition to President Yeltsin demanding that the decree be repealed because they saw it as "the beginning of a new stage of farm reorganisation and opens the door to an uncontrolled sale of land".

The complex process of privatising agricultural land began in Nizhny Novgorod in 1994, starting with a model developed by the Nizhny Novgorod authorities in partnership with the International Finance Corporation. Through this pilot experience, general legislation on land privatisation was passed in July 1994. The new decree, which is ancillary to that general legislation, deals with the specifics of how an individual leaves the collective. Prior to the new decree, an individual leaving the collective farm could only receive land that was chosen by the collective, as a rule the worst and most remote land. The new decree allows the farmer to choose his land. While under the Russian Civil Code (not the new decree as stated in your article) the other joint owners have to agree to the individual's choice of land, the new decree limits their right of objection and sets up systems for settling disputes (through an auction or the courts).

It is unfortunate that a piece of legislation that moves Russia toward individual property rights and deals with the complexities of the current joint share ownership of Russia's land was labelled as anti-reform.

Boris Nemtsov,
governor,
Nizhny Novgorod Oblast
Anthony Doran,
manager,
International Finance Corporation,
Administration of the Zizhny Novgorod Oblast,
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Kremlin, Corpus 1

Political tactics

From Mr R.A. Laurence.

Sir, The Labour party likes to be seen to be supporting the Anglo-Irish peace initiative and the Framework Document, while in reality it seeks to exploit some of the inevitable side effects of the peace process for party political gain.

Recently, the shadow Scottish secretary said that if an assembly were to be established in Northern Ireland then it would be legitimate to devolve power to a Scottish assembly.

The tactic was employed again in a more spectacular fashion when the Labour party attempted to use the Ulster Unionist MPs' present difficulty with being seen to support the prime minister to defeat the government on the European issue. The Unionist MPs are bound to tread carefully and it should be recognised by both major parties in the House of Commons that necessary posturing by Northern Irish politicians takes place as part of the negotiations and to placate more extreme factions in the province.

I hope the electorate recognises these attempts to cloud the issue and to try and make political capital from the incredibly delicate task of saving lives in the province for what they are.

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FINANCIAL TIMES

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No crisis in the dollar

When countries devalue or banks collapse, money gravitates towards safe havens. But what is the definition of a safe haven? From 1945 the dollar has enjoyed a reputation as the best brand name in international finance. Yet since the Mexican peso collapsed in December and Barings went into administration a week ago, the currency market's safest havens have been the D-Mark and the Yen, while the dollar has been shunned.

On Friday an army of central bankers stepped into the foreign exchange markets to support the US currency, bnt to no great effect. The exchange markets' finest brand appears to have fallen off the shelf.

Finding new theories to explain the weak dollar is a global growth industry. Yet the effort is arguably misplaced. Clearly the dollar still plays a safe haven role in North America, where the currencies of Canada and Mexico – countries that account for not far short of 30 per cent of US trade – have been conspicuously weak against that of their larger neighbour. Nor is the dollar as depressed as generally assumed.

Between 1980 and tbe end of 1994 the US currency fell by a little over a tenth on a trade weighted basis. Against the D-Mark the fall in nominal terms was much the same. This hardly ranks as a retreat into some permanent twilight zone of the currency markets. Since the start of tha year, meantime, the fall against the D-Mark has been about 7½ per cent; but at its present level the dollar is merely trading at the lower end of its range since the start of the decade.

Much has been made of structural changes, such as the US switcb from creditor to debtor country status, that are thought to have undermined the dollar's role as a store of value. Yet the recent trend appears more compatible with a cyclical explanation for the currency's weakness. Certainly the present downward lurcb partly reflects changed perceptions abont the rate at which the US economy is slowing down. A soft landing would imply a lower peak for short term US interest rates, giving a relative advantage to Germany, where interest rates are expected to rise later this year.

If there has been a long term change in currency relationships, it concerns the dollar against the yen.

Yet this is not essentially a dollar problem. Between 1980 and the end of 1994 the trade-weighted appreciation of the yen against the rest of the world was a phenomenal 162 per cent – a direct consequence of the endemic Japanese tendency towards trade surplus. Yet it would be wrong to conclnde that the crisis is in the yen. The real problem is the Japanese external account and Japan's difficulty in re-orientating its economy towards the domestic consumer. To confront such adjustments, the Japanese have always needed the stimulus of severe shocks. An overvaloed yen, whicb makes imports cheaper and exports less competitive, is part of the solution, not the problem.

Italy's interests

With every percentage point that the lira falls against the D-Mark, the issue at stake in Italy's political crisis becomes clearer. Mr Silvio Berlusconi, the former prime minister, is challenging his successor and former Treasury minister, Mr Lamberto Dini, for reasons that have nothing to do with principle but everything to do with his ambition to regain power.

Mr Berlusconi refuses to accept that be owes his downfall in December to his own mistakes. By reversing his earlier decision to support Mr Dini's budgetary measures, Mr Berlusconi is trading in high-risk political derivatives. He is gambling on engineering a June general election that could sweep him back into the premiership and offer the best (perhaps only) hope of resolving the problems besetting his media empire.

Mr Berlusconi'a double-or-quits strategy appears to be founded on the plausible assumption that the longer the election is delayed, the smaller will be his chances of returning to office.

His aura of power and prestige may decline in coming months, not least if his business interests become further entangled in legal investigations. Any success by Mr Dini on the budgetary front would also weaken Mr Berlusconi's position.

The political power-play in Rome seems to be overshadowing the policy questions that are of such significance for Italy'a future: perhaps for its place as a state with a significant role in Europe.

Mr Dini's Italian L20,000bn (£7.4bn) fiscal package, to go before parliament this week, is the least needed for credibility.

By making his right-wing deputies' support for the budget dependent on a pledge by Mr Dini to implement pensions reform through special legislation, Mr Berluscoui has voiced a condition that he must have known would be impossible to fulfil.

To tackle the pensions reform that Mr Berlusconi'a government was forced to shelve in November, Mr Dini needs the support of the unions and the country at large. Any attempt by his non-elected administration to push through unpopular measures without consultation would trigger disruptive popular discontent. This, presumably, is the outcome that Mr Berlusconi calculates would increase his chances of re-election.

Italy's interest lies in giving Mr Dini time to enact his reform programme, since an early election would produce little except further polarisation.

Mr Berlusconi's interest, it appears, lies in generating the opposite circumstances. Yet Italy's businessman-politician needs to ponder a sad truth: for the edifice of the Italian government to be ripe for reconquest, its structure would need to be still weaker than today. The collapse of his successor's adminlatration might brighten Mr Berlusconi's short-term prospects, but victory would be Pyrrhic. He should offer unqualified support to Mr Dini, instead.

A social agenda

Every day brings news of the global economy'a rapidly expanding potential for human advancement. Less frequent are reminders of how much of it continues to be wasted: over 1bn peopla in the world are living in abject poverty, and 120m are officially unemployed. This week's UN summit for Social Development in Copenhagen will clarify the scala of this global failure for the hundreds of attending international leaders.

They will end the week with a joint declaration which supports their joint commitment to giving social development and human well-being "the highest priority" in the years ahead. But few expect any substantive new international agreements to result. This is partly due to the unusual setting. For example, the declaration notes the pressing need for more comprehensive reductions in African debt. But there are other forums for agreeing the detail of such proposals, such as the periodic meetings of the International Monetary Fund and World Bank.

The more profound reason for the lack of truly international policy proposals in the declaration relates to its content. For the lesson of the world'e many recent economic success stories is that, while international development programmes can support a poor country's commitment to invest in social and economic advancement, they can rarely substitute for it.

Most of the countries that have lifted themselves out of poverty over the past twenty years received aid and advice from the World Bank and others. Yet these recipients succeeded, while others in Africa did not, because aid was spent in a domestic policy environment which ensured *all* of the government's resources were effectively invested: above all, in basic health and education, and in providing a stable institutional and macroeconomic setting for sustainable growth.

Only governments dedicated to achieving these goals will ultimately prosper from foreign support, be it private or public. Yet the growth in private capital flows to developing countries has increased that potential reward. With the implementation of the recent GATT trade agreements, these countries will also have a better chance to grow through international trade. One of the "highest priorities" for rich country leaders returning from the summit must be domestic efforts to ensure that this opportunity remains.

The declaration points to the fact that poverty and unemployment are now rising concerns in both rich and poor countries. It is bordering on the obscene to compare the economic and social squalor of the developing world to recent increases in rich country unemployment and inequality. But as long as rich country governments fumble for solutions to these problems, there may be a growing temptation to cast the blame elsewhere. Blaming the victims, by erecting trade barriers against them, would be one of the best ways to expand their ranks.

The costs of competing

Germany faces difficult challenges in sustaining the sharp improvement in its economy, says David Marsh

The German economy, heading for 3 per cent growth this year after a similar expansion in 1993, projects a pattern of light and shade.

The sharp economic improvement during the past 18 months has resulted from a combination of moderate wage rises, tough-minded rationalisation in industry and vigorous measures to cut the budget deficit. The country has acted more quickly than expected to reduce structural weaknesses exposed by the deep post-unification recession of 1992-93.

The Germans seem to have reacted with unexpected alacrity to Chancellor Helmut Kohl's appeal a year ago for his compatriots to "change mentality, go down new paths, and become more flexible" to avoid falling behind in the global competitiva race.

Yet it is too soon for eurphoria over the recovery. Europe's largest economy still confronts difficult tasks in its drive to reduce the economic gap between east and west Germany, and safeguard the competitiveness of its high-cost industrial base. Some of these have been made harder still by the renewed appreciation of the D-Mark.

Economic growtb in west Germany (accounting for slightly more than 90 per cent of total German gross domestic product) last year was 2.5 per cent, more than double the rate predicted a year earlier by most government and private sector forecasters. Growth in east Germany, fed by an annual DM150bn in pnblic sector transfers from west Germany, has now settled down to a to 10 per cent a year, the highest of any European Union region.

With increased export orders and a pick-up in domestic investment, German companies recently reported more optimism about short-term business prospects than during the 1990-91 reunification boom, according to the Munich-based Ifo research institute. Mr Theo Waigel, the finance minister, last week said international confidence in government policies had been demonstrated by the world-wide "run into the D-Mark" – up nearly 5 per cent on a real trade-weighted basis since early 1994.

Public finances have also shown considerable improvement. Mr Günther Thurmann, economist for Salomon Bros in Frankfurt, estimates the overall public sector deficit is likely to fall from a peak of DM196bn, 6.2 per cent of GDP, in 1993, to DM117bn this year, 3.3 per cent of GDP (these figures inclnde off-budget transactions by the now wound-up Treuhand privatisation agency as well as borrowing by the posts and railways).

Using the narrower definition set out in the Maastricht treaty, the deficit will be comfortably within the 3 per cent target set as a condition for membership of economic and monetary union.

However, many industrialists and economists recognise that economic recovery can be counter-productive. They say that, with growth now under way, there is less incentive to cut costs and increase efficiency in the public and private sectors – with consequences that could blunt Germany's competitive edge. One symptom of that tendency is the 10-day-old strike in the Bavarian engineering industry.

Last year's recovery was greatly helped by pay restraint. Most wage increases were around 2 per cent (less than the 3 per cent rise in consumer prices). Labour costs per unit of production fell in west Germany by about 5 per cent, the first such drop since the second world war.

But the 7.5 per cent "solidarity" surcharge on income tax introduced on January 1 as part of Mr Waigel's measures to cut the budget deficit, has increased the size of nominal wage rises needed to protect union members' living standards. The Bavarian strike, the first in engineering for 11 years, is in support of the IG Metall trade union's claim for a 6 per cent pay rise.

Unions' desire to see rising corporate profits channelled into increased pay risks is disturbing the wages calm, says Mr Franz-Josef Link, an economist at the Institut der deutschen Wirtschaft (IW), a Cologne-based research institute linked to the Confederation of German Industry (BDI).

"There is a danger of a break-up of the [previous] consensus about the need for cost reductions in industry," Mr Link says.

Mr Eberhard von Koerber, the German industrialist who heads the European operations of Asea Brown Boveri, the Swedish-Swiss engineering group, offers a similar analysis. "German competitiveness has fallen sharply against nearly all countries during the last 10 years. Despite the improvement in the last 1½ to 2 years, there are still gaps to be made up."

Domestic rationalisation and transfer of production to lower-cost sites abroad led to the loss of 1m jobs in German manufacturing industry between 1991 and 1994. Mr von Koerber believes that snch changes reflect the "dramatic changes" undergone by corporate Germany. Yet he says Germans have still not shown conclusive proof they can muster the "community spirit" needed to tackle the country's economic problems.

Now that recovery is entering its second year, Mr von Koerber is concerned that politicians and wage-earners alike will be less willing to accept belt-tightening. "When the sun comes out, people feel they can put the umbrella back in the cupboard."

For employees, the message from Mr von Koerber and other top managers is uncompromising: any relaxation of the 1993-94 shift towards pay curbs and more flexible working practices will lead to further rationalisation and job cuts.

Unless a large part of declining manufacturing employment can be replaced by new jobs in the service sector, there will be little chance of making permanent inroads into German unemployment. Including people in training programmes and government work schemes, the overall German jobless total is estimated by Boun's council of economic advisers at 3m in west Germany and 2.3m in the east.

The Bundesbank has added its weight to the view that Germany is still a long way from victory in the competitive figbt. Although the higher D-Mark helps reduce inflation, currency appreciation will bring the corporate sector "additional challenges" by making exports more expensive, the central bank's latest monthly report warns.

The Bundesbank pays tribute to recent German snccess in increasing foreign market shares. But it adds: "To adapt to the changed international economic environment, particularly competition with east Asian countries, one single set of measures will not suffice. Instead, a complete medium-term strategy is needed to improve Germany'a performance as an industrial base."

There are plenty of other lingering problems. Last year's increase in exports marked the first time since 1985 that the volume of Germany's foreign sales grew faster than total export markets, according to the Organisatioo for Economic Co-operation and Development.

Since unification in 1990, west German companies have shifted their sales afforts away from exports and towards east Germany. Because of this, the OECD estimates that Germany's share of total world export markets is now 10.7 per cent, down nearly 2 percentage points compared with the end of the 1980s. This is the worst comparative performance of any of the seven top industrial countries.

One indication of the switch away from exports towards ecooomic rebuilding in the east is Germany'a new-found current account deficit, the product of a lower trade surplus and a sharply increased deficit on services and transfers. Since unification, Germany bas recorded annual current account deficits of around 1 per cent of GDP, compared with surpluses at the end of the 1980s of around 4 per cent of GDP. With heavy public sector borrowing abroad via govarnment D-Mark bonds, there has been a fall in Germany's net foreign assets – once described by Mr Hans Tietmeyer, the Bundesbank president, as Germany's "reserve army" for financing unification. From a peak of DM532bn in 1990, they fell last year to DM335bn.

Another reason for caution about economic prospects is that tha recovery is slower than after most previous post-war recessions, particularly those of 1966-67 and 1974-75. The Bundesbank has been cutting interest rates less quickly than in past recoveries, partly because of concern over inflationary risks associated with a doubling of public sector debt since unification. The tax increases implemented as part of Mr Waigel's budget deficit cuts have cut real incomes and hence depressed consumer spending, in spita of a sharp fall in the savings ratio (from 14.5 per cent to 12.5 per cent) since 1991.

And although German export order volume showed a 15.5 per cent annual rise in the final qnarter of 1994, the export rise depends heavily on capital goods. Germany has probably profited disproportionately from a surge in investment in most of its trading partners during the last 12 months; if higher interest rates were to weaken the international economy, export orders could start to tail off.

Underlining that further efforts are needed to bolster competitiveness, the Institut der deutschen Wirtschaft calculates that last year's improvement still left Germany's unit labour costs (expressed in a common currency) 7 per cent above those of its main industrial competitors. The gap was, however, reduced considerably from 12 per cent in 1993.

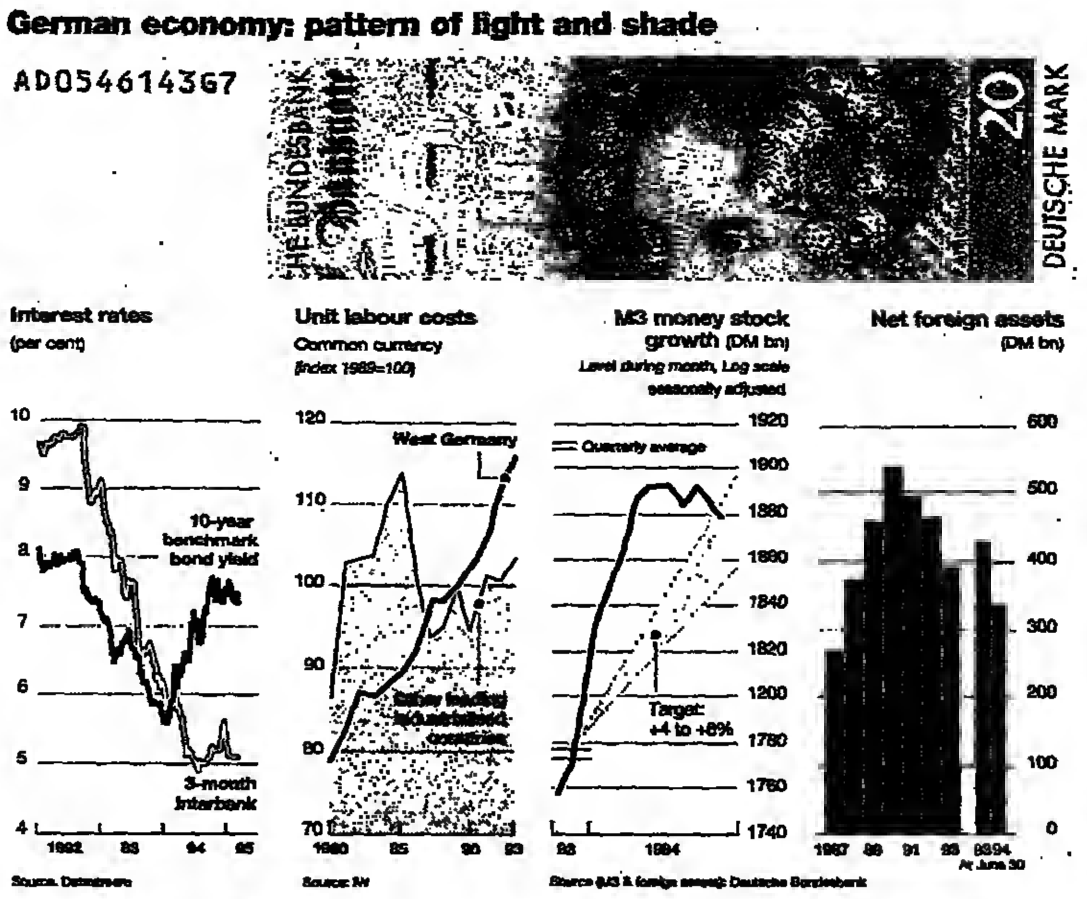
Other commentators believe the IW's calculations over-estimate the extent of Germany's competitiveness problem. But whether unit labour costs can be further reduced may depend on the outcome of the IG Metall strike, which will set a benchmark for pay settlements in other industrial and service sectors.

Pointing to sharp increases in industrial productivity, Mr Holger Schmieding, senior economist at Merrill Lyncb in Frankfurt, says German companies can weather even a 4 per cent pay rise resulting from the IG Metall conflict. However, he adds: "If the D-Mark continues to go up, they could have a problem". Mr Schmieding is already forecasting that the west German recovery will start to fade in early 1996, and says a persistent D-Mark appreciation could bring forward the expected economic downturn.

Whatever the outcome of the strike, Mr Hermann Remsperger, chief economist at BHF-Bank in Frankfurt, sees no relaxation in German companies' desire to trim costs.

"The higher the wage rise, the more German companies will want to cut labour expenses," be says – a sobering reminder that, whatever happens in the next 12 months, corporate Germany's cost-cutting crusade looks set to continue.

German economy: pattern of light and shade



RECOVERY NUDGES RATES

After a two-year period of reductions in Bundesbank interest rates, the expectation now is that the next move will be up. The only doubt is over the timing of the rise.

The key discount and Lombard rates have fallen from their peaks of 8¾ and 9¾ per cent respectively in the summer of 1992 to the 4½ and 6 per cent rates set last May.

The Bundesbank is already warning that the economic recovery has increased inflationary pressures – despite the recent fall in the underlying inflation rate to an annualised 1¾ per cent. If the IG Metall strike ends in a pay rise substantially above the 3 per cent assumed by the markets, an early increase in interest rates would be likely.

However, three factors militate against early Bundesbank tightening of monetary policy. First, the rise of the D-Mark, by holding down import price rises, has reduced the risk that higher world commodity prices will fuel domestic inflation.

Second, the Bundesbank's M3 money supply measure has been performing more satisfactorily over the past six months. Year-on-year M3 growth fell to 5.7 per cent at the end of the year, within the Bundesbank's 4 to 6 per cent 1994 targat range, as bank lending slowed and investors moved funds out of short-term deposits.

Third, the Bundesbank wants to avoid adding to currency turbnlence during the approach to next month's French presidential elections.

Mr Otmar Issing, a senior Bundesbank directorate member, recently denied that in its interest rate deliberations the Bundesbank would be substantially influenced by worries about franc weakness. "Wa love lots of countries, not just the French," he said.

But early Bundesbank tightening would increase international suspicions (described by the Bundesbank as unwarranted) that it wants to scupper the Maastricht plan for economic and monetary union.

Unless the IG Metall strike produces a real shock, therefore, all the signs point to no change in the Bundesbank's principal interest rates during the next two months.

OBSERVER

IN DAMASCUS

The son still shines

■ Collectors of personality cults have thin plckings these days. Extinct in east Europe, on shaky legs in North Korea, quasi-religious adoration of the politically chosen one is an increasing rarity. So discovering a place with not one, but *two* thriving cults is a bit of a shock.

Syria is sprinkled with portraits and statues of president Hafez al-Assad, in power since 1970. Assad's cult, supposedly invented and refined by Ahmad Iskandar Ahmad, minister of information between 1974-83, has an obvious explanation – anyone building a power base on such barren ground as Assad's positively cries out for it. If you are surrounded by pictures of the boss, well, maybe he really *is* the boss.

But how to explain the other cult, manufactured around Assad's son Basil, who died in a car crash in January 1994, aged 31? The worship of Basil now outstrips that of his father, if sheer quantity of shrines is anything to go by; hardly a Damascene vehicle passes without its Basil photo. Even street-traders sell only two types of lapel badges: those featuring the sun-glassed Basil, and those of father and son together.

Why the adulation? It obviously can't be Assad laying the ground for a power hand-over. In any case, Syria's constitution forbids anyone becoming president before the age of 40; the earliest Basil could have taken over the reins of power would have been 2003, when Assad will be 72 – a decent retirement age.

Maybe it's the perfect cult. Basil the heir-apparent – who will forever remain just that.

Housing benefit

■ With annual inflation now running at about 20 per cent and an average monthly wage of $200, Syria is not in the best of economic health. But all round Damascus new apartment blocks are being energetically thrown up. One Damascene offers – without intended criticism – an explanation for the capital's current spiralling property prices: "The government builds the apartments and offers them at cost price to the military. Then the officers can, if they wish, sell them at market prices to civilians."

Claes act

■ Almost as precious a commodity as housing is information, also tightly controlled by the state. At the ministry of information in Damascus, a senior official says that while the minister is head of the board of directors of the three state-owned oewspapers and SANA, the Syrian Arab News Agency, the country's media are "more or less 90 per cent independent from the government."

'The president has decided to lift all press censorship so yon can adequately express your admiration of him'

Some newspapers get a bit carried away with all this independence. Damascus's only English-language daily – the *Syria Times* – gave Willy Claes, the NATO secretary general, a pummeling in its February 21 editorial. It may not like him; but that's surely no reason to call him "Belly Klaes"?

Syrian quickstep

■ Despite surface appearances, state control is beginning to wither, under the pressure of people like Saeb Nahas, president of Syria's association of travel and tourism agents. Besides chairing his own large conglomerate of tourism companies, Nahas also has the presidential ear on matters of economic reform.

Nahas is a proponent of economic liberalisation – but not at any price. "We could go forward in free market reforms... but the Syrian administration prefers 'slowly but surely'. We want to prevent the negative consequences; you cannot, for the sake of economic reform, make people who have put their blood with yours, hungry. If peace takes place, as we wish, a just peace, Syria will be able to make quick steps."

Tour guidance

■ One of Syria's biggest growth industries, says Nahas, must be tourism. He wants to see as many as 4m visitors annually by the year 2000, double 1994's figure.

That's a tall order, particularly given his other aim of attracting "the high class tourist" and that, in his estimation, Syria lacks a single genuine five-star hotel.

On the other hand Nahas, whose company has French and German subsidiaries, is firmly convinced that Damascus is today a much safer place than just about any city in Europe.

He cites the example of one of his relatives, recently shot and wounded in Germany when standing in line at a bank: "Since 1970 we have enjoyed a very strong security system. You are safe in the evening in Damascus with your wife."

Damascene hermit

■ In his biography of Assad, Patrick Seale writes: "In 1970 he was popular, by 1982 he was feared." In 1995, Assad is almost invisible, appearing only on the most public of occasions.

Proud, stubborn, yet obviously in the twilight of his rule, he might be wondering what his legacy to Syria will be. Children in Damascus wear military-style uniforms; in country villages they beg forelgoers for Biros. Plenty of room for a peace dividend.

Casa Carlos

■ Still, it's nice to see someone showing long-term optimism about Syria. Who better than Argentina's president Carlos Menem, himself the son of Syrian emigrants?

Menem has built himself a resplendent, Ottoman-style white villa, just outside Maalula, north of Damascus. Might make a useful bolt-hole, if his own cult runs ont of steam in Argentina's presidential elections in May.

Gary Mead

FINANCIAL TIMES
Monday March 6 1995

Dispute shows how presidential race is disrupting government

French premier rebukes minister

By John Ridding in Paris

The battle between France's Gaullist presidential rivals intensified at the weekend with an attack by one of the front-runners, Mr Edouard Balladur.

The prime minister clashed with Mr Alain Juppé, the foreign minister and one of the main supporters of his leading rival Mr Jacques Chirac, mayor of Paris.

The row was triggered by a Foreign Ministry announcement last week that France would close six embassies and 15 consulates because of budget cuts. But Mr Balladur said on Saturday there would be no embassy closures and said, in a thinly veiled attack on Mr Juppé, that the Foreign Ministry's announcement had been politically motivated. "The announcement has no foundation and its publication in the current period does not seem based on concerns for the proper functioning of government," ha said.

The dispute demonstrates how the presidential race is disrupting the workings of the centre-right government and reflects the growing struggla between Mr Balladur and Mr Chirac, who has overtaken the prime minister in opinion polls for the spring election. The row coincided with an Ifop opinion poll which confirmed the fall in support for Mr Balladur. The survey showed Mr Chirac defeating him by 52 per cent to 48 per cent if they met in the second-round run-off on May 7.

The poll was the third in a week to forecast a victory for the mayor of Paris, demonstrating the collapse of Mr Balladur's long-standing lead. The survey also reflected the steady rise of Mr Lionel Jospin, the Socialist candidate, who is running neck-and-neck with his Gaullist rivals in first-round voting intentions.

The prime minister'a problems could mount this week should a candidate from the centre join the contest. Mr Raymond Barre, the former prime minister, and Mr Valéry Giscard d'Estaing, the former president, are expected to announce their intentions within the next few days. Both potential candidates scored less than 5 per cent in the Ifop poll, but their entry would draw votes from Mr Balladur.

In spite of criticism of his low-key campaign style, the prime minister said he would not change his strategy. "I will campaign in my own way," he told a rally on Saturday. "I am as God made me and I am not going to change." But Mr Balladur and his aides have recently adopted a more aggressive stance. In particular, they have launched attacks against Mr Chirac'a economic programme, which they say would cost at least FFr500bn ($97bn).

Mr Balladur's statement last week that extravagant election promises threatened the franc's stability prompted concern from Mr Michel Sapin, a former finance minister and a member of the monetary policy council of the Bank of France.

"It is in nobody'a interests to damage the franc by dragging it into the electoral debate," said Mr Sapin in an article in Le Journal du Dimanche.

GM studies expansion of UK output

Corsa range may be assembled at English plant

By Kevin Done, Motor Industry Correspondent, in London

General Motors, the US vehicle maker, is considering a substantial expansion of its production capacity in the UK with the assembly of a third car range.

It is investigating the feasibility of producing the Vauxhall/Opel Corsa small car at its plant at Luton, southern England. At present the Corsa is produced at plants in Spain and in eastern Germany.

Tha expansion of vehicle assembly in the UK, which is being examined as part of a far-reaching GM study of its future production capacity needs in Europe, would represent a large increase in the commitment of the world's biggest vehicle maker to production in the UK.

The current GM Europe plan calls for the output of 80,000 to 100,000 Corsas a year at the Luton plant. A final decision on the project is expected this year.

Production would begin around the end of the decade when GM would launch tha replacement for the current generation Corsa, introduced two years ago.

The Luton plant has achieved big gains in productivity and quality in recent years and is one of GM's moat cost-effective assembly facilities in Europe.

As part of its pan-European capacity study, GM is seeking ways of achiaving greater flexibility and higher capacity utilisation at its existing plants to avoid the heavy capital investment needed for a new facility.

It must also choose a production site for a new range of cars, smaller than any it currently produces, that are being developed at its technical centre in Germany for launch around the end of the decade.

The introduction of a second car range at Luton – the Cavalier/Vectra large family car is currently made there – would represent a big advance in GM'a presence in the UK and could take its annual UK vehicle production above 450,000 a year.

GM is already raising capacity this year at the Luton plant by 25 per cent to 60 cars an hour or 215,000 cars a year. This extra capacity will come into use in the second half of the year, when the group begins output of the next generation Vauxhall Cavalier/Opel Vectra, which is also built in Germany and in Belgium.

In the UK GM currently also assembles the Vauxhall/Opel Astra small family car at its plant at Ellesmere Port in tha north west.

GM's production of cars and car-derived vans in tha UK, which peaked at 302,000 in 1992, rose by 6.5 per cent to 262,000 last year from 246,000 in 1993. It produced an extra 44,600 vehicles at IBC Vehicles, a 60/40 venture with Isuzu, its Japanese affiliate.

GM marks ont ronte back to Britain, Page 7

Sliding peseta faces devaluation

Continued from Page 1

the first significant crisis in the ERM since the currency upheavals of 1992 and 1993 which ended in a decision to widen the fluctuation bands in the system to 15 per cent. Between September 1992 and August 1993, the peseta was devalued three times in the ERM.

A new devaluation will be a political blow for the Socialist government of Mr Felipe Gonzalez, which has supported EU plans for monetary union. It will underline Spain's economic and political problems and the difficulties the country faces in reaching EU targets needed for a single currency to be adopted.

Another option would be for Spain to quit the ERM, as did Italy and Britain in September 1992. But it is thought that the Bundesbank is against this idea because it would leave the ERM with only eight members and looking like a D-mark block.

Profits will go towards aid for needy church members

Mormons start big investment in prime European farmland

By Deborah Hargreaves in London

The Mormon Church has opened a drive to buy prime farmland in Europe by spending £14m ($22.3m) on six properties with a total area of more than 4,000ha in eastern England. The aim of the purchases is to meet the growing welfare commitments of the Mormons, known officially as the Church of Latter Day Saints.

"We're not just looking for short-term returns, but for results 100 years from now," said Mr John Creer, president of the church's farm management company in Salt Laka City, Utah. Membership of the church has risen by about half in the past 10 years to reach almost 9m worldwide.

"Some peopla think we're setting up communes, but these farms are going to be run for profit to help members of the church who are unemployed or disadvantaged," said an official of the church in Britain. Profits from the farms will go towards the church's internal programme of welfare payments to needy members in support of the growing membership.

"We're looking for good-quality land that will have a comparative advantage worldwide so that when things shake out with Gatt and reform of the Common Agricultural Policy, they will still be around as competitive farms," Mr Creer explained.

The church is keen to acquire large, world-class farms to run for cash income and is seeking large estates throughout the European Union. It is also interested in buying land in south and central America where membership is growing rapidly. The church already has a ranch in Argentina as well as holdings in the US, Canada and New Zealand. Mormons have had a long association with agriculture. Joseph Smith, founder of the church, came from an impoverished New England farming family. Ezra Taft Benson, who was leader of the church until last summer, was US agriculture secretary in the Eisenhower administration of the 1950s.

The farms are the institution's first large foray into British agriculture after running a 110ha holding in the English Midlands as a pilot project for the past 10 years.

"We experimented with producing meat and milk for distribution to less well-off families, but found the operation was not large enough to be effective," the UK official said.

Mr Creer said the church was comfortable with farmland as an investment: "It is a productive asset whether prices are good or bad and it can support life."

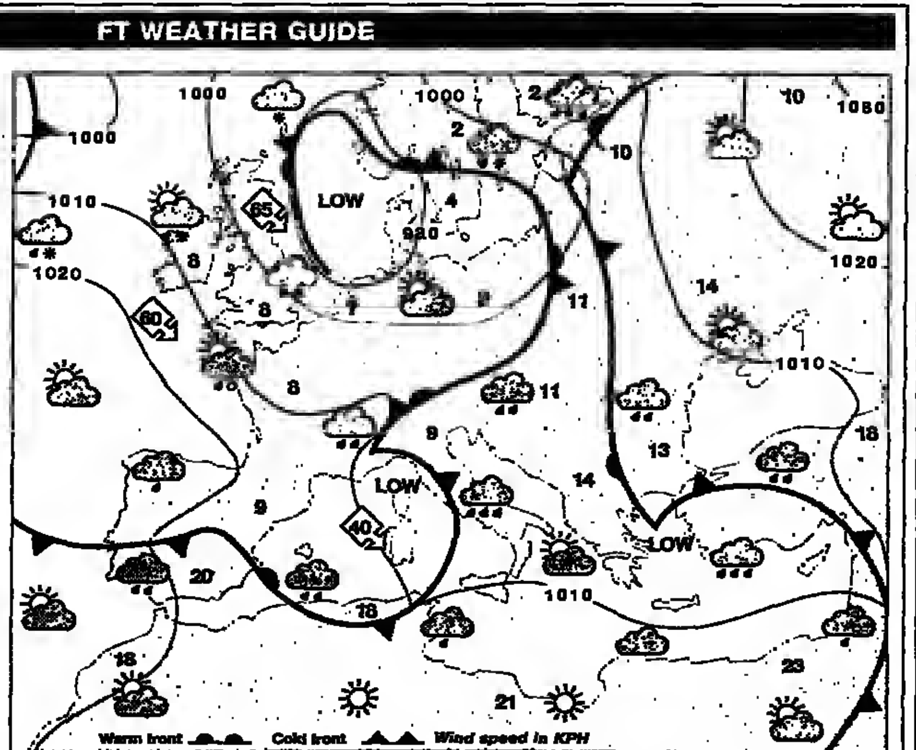
FT WEATHER GUIDE

Europe today

An active depression over the North Sea will draw cool, unstable air into western Europe. There wil be showers, hail and sleet over much of the British Isles, France, the Netherlands and Germany, while southern Scandinavia will have heavy sleet and snow. Much of Spain will be cloudy with patchy rain or drizzle, especially in northern and central regions. A front pushing across central Europe will bring rain across a wide area, from western Poland to the Alps, and another band of rain will stretch across Italy, Sicily and northern Tunisia. Slovakia and former Yugoslavia will have sunny intervals and scattered showers, and heavy rain is expected across Romania, Bulgaria and western Turkey.

Five-day forecast

A series of depressions will continue to affect the UK and western part of the mainland. Brief sunny periods will be followed by rain, showers and strong winds. High pressure from the Azores to the Iberian peninsula will build up in the Mediterranean, bringing higher temperatures and calmer conditions.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius							
			Beijing	sun	14	Caracas	fair	29
			Belfast	hail	6	Cardiff	shower	7
Abu Dhabi	sun	24	Belgrade	fair	13	Casablanca	fair	18
Accra	cloudy	34	Berlin	shower	6	Chicago	shower	5
Algiers	shower	19	Bermuda	fair	23	Cologne	fair	6
Amsterdam	hail	7	Bogota	fair	21	Dakar	sun	24
Athens	cloudy	18	Bombay	sun	32	Dallas	fair	25
Atlanta	fair	18	Brussels	shower	7	Delhi	fair	23
B. Aires	sun	27	Budapest	fair	10	Dubai	sun	24
B.ham	shower	7	C.hagen	shower	5	Dublin	shower	7
Bangkok	fair	35	Cairo	fair	23	Dubrovnik	fair	14
Barcelona	fair	15	Cape Town	fair	24	Edinburgh	fair	6

Faro	shower	19	Madrid	drzzl	14	Rangoon	sun	33
Frankfurt	rain	8	Majorca	fair	17	Reykjavik	cloudy	-2
Geneva	rain	7	Malta	shower	17	Rio	fair	31
Gibraltar	shower	18	Manchester	hail	7	Rome	rain	14
Glasgow	shower	6	Manila	cloudy	32	S. Frsco	fair	15
Hamburg	shower	8	Melbourne	fair	25	Seoul	sun	10
Helsinki	sleet	2	Mexico City	shower	22	Singapore	rain	31
Hong Kong	fair	23	Miami	fair	28	Stockholm	sleet	3
Honolulu	fair	27	Milan	shower	11	Strasbourg	cloudy	9
Istanbul	rain	14	Montreal	sleet	4	Sydney	rain	24
Jakarta	thund	31	Moscow	fair	11	Tangier	shower	18
Jersey	hail	8	Munich	rain	8	Tel Aviv	shower	23
Karachi	sun	28	Nairobi	shower	27	Tokyo	fair	10
Kuwait	sun	25	Naples	shower	13	Toronto	cloudy	2
L. Angeles	fair	18	Nassau	fair	26	Vancouver	rain	6
Las Palmas	fair	21	New York	rain	11	Venice	rain	9
Lima	fair	27	Nice	fair	13	Vienna	cloudy	6
Lisbon	rain	16	Nicosia	shower	21	Warsaw	fair	10
London	fair	8	Oslo	sleet	3	Washington	shower	14
Lux.bourg	fair	4	Paris	shower	8	Wellington	fair	20
Lyon	rain	9	Perth	sun	29	Winnipeg	sun	-13
Madeira	cloudy	19	Prague	rain	8	Zurich	cloudy	7

THE LEX COLUMN

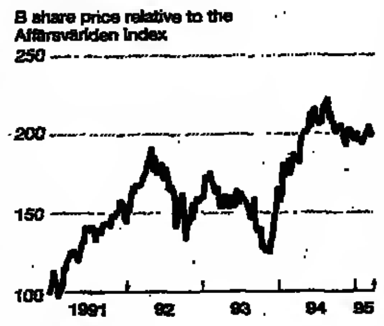
Maximising Volvo's value

One hopes the forthcoming sale of Volvo's BCP consumer products subsidiary will not be derailed by nationalistic considerations. A "Swedish" solution to the sell-off – as proposed by a senior BCP executive last week – would work against shareholder interests. No Swedish company could afford to buy the BCP portfolio, which has turnover of SKr22bn ($3bn) in businesses as various as matches, beer, mineral water and snuff. So, in practice, a domestic solution means flotation in Stockholm. That would produce lower proceeds than if Volvo sold BCP to a mix of trade and financial buyers. Trade purchasers such as Carlsberg or Nestlé can afford to pay more for brands such as Pripps beer or Ramlösa water than any purchaser of the entire BCP business.

Volvo shareholders would be reassured if the board made it plain on Wednesday, when the group announces its 1994 results, that it will extract as much value from disposals as it can. Thereafter, it must address the question of what to do with the cash. Volvo will bave an estimated SKr45bn on the balance sheet after BCP is sold. Its shares are still valued on a low multiple of earnings relative to other European manufacturers, reflecting investors' fears that little cash will find its way to them: ahare buy-backs are illegal in Sweden and a special bumper dividend seems unlikely. But a coherent explanation of how the money is to be spent would help enhance the rating. If Volvo were not Sweden's national champion, such a cash mountain could even attract the attentions of an unfriendly bidder.

Volvo

B share price relative to the Affärsvärlden Index



Source: FT Graphite

Cyclical stocks

Wall Street and Detroit have long been at odds about the timing of the downturn in the motor industry: analyats' doom-laden prognoses contrasted with manufacturers' blithe assurances that the cyclical peak was a long way hence. Last week, however, Wall Street was proved right when two of the big three car companies announced that unit sales for February were down on the previous year.

The news from Chrysler and General Motors has broad implications for investment strategy. Insofar as it is a pointer to a slowdown in the US economy, it will intensify the switch out of so-called early cycle industries such as metals, base chemicals, or commodities into more defensive sectors such as food manufacturing and pharmaceuticals. This has already been apparent in the months since US bond yields reached their peak: steel shares are down 10 per cent since early November, while pharmaceuticals are up 11 per cent. Interest rate-sensitive stocks have also responded to declining bond yields: insurance shares are up 13 per cent.

This pattern has to some extent been repeated in Europe. Car and chemicals companies have come under pressure. Financials have become frisky: Allianz, the big German insurer, rose 9 per cent in February alone. The sell-off of cyclicals may be explicable in the context of the US, but is premature in Europe, as is any move towards financials or consumer sectors such as retailers. Corporate earnings will probably peak in the US next year, but will carry on growing in Europe until at least 1998. European cyclicals deserve a new lease of life.

Drugs wholesaling

Europe's pharmaceuticals wholesaling industry is in the throes of consolidation. Last week'a hostile bid by Germany's Gehe for Britain's AAH is the most significant step yet. It follows the formation last December of International Pharmaceutical Service Organisation, a non-equity alliance with combined sales of £13.3bn, by six European distributors. Gehe itself had previously acquired OCP, France's largest wholesaler.

The German group, anxious to avoid antagonising suppliers and regulators, is keen to underplay the implications for the drugs companies. It stresses that, if the bid succeeds, it will control only 10 per cent of the European Union market. Nevertheless, Gehe would become the biggest or second biggest distributor in three of the four most important European drugs markets. Most importantly, the greater volumes of medicines purchased by the enlarged group should allow it to demand bigger discounts from manufacturers. The company could also improve margins by increasing "parallel" imports from low price countries like France to higher price nations like Germany and the UK. Thet would reduce average European prices, something which would hurt medicine manufacturers. They could respond by distributing direct to chemists, but for that to be successful they would probably need to form alliances, as none has sufficient market share on its own. An alternative would be for drugs groups to buy wholesalers. Given recent moves in the US pharmaceuticals industry towards vertical integration, that should not prove a surprise.

Northern Electric

Trafalgar House's £11-a-share bid for Northern Electric is hardly irresistible but it does offer investors jam today rather than jam tomorrow. If Northern succeeds in fending off the bid, which closes on Friday, shareholders will receive a package of sweeteners worth £5 a share and still own the core electricity business. Northern has promised good dividend increases from this rump for the next two years. If things work out as planned, dividends will continue to rise after that. But there are risks. Paying out the sweeteners will lift gearing to more than 200 per cent, leaving the rump vulnerable if interest rates go up. Further, if a Labour government comes to power, tighter regulatory constraints or a windfall tax could reduce the company's dividend-paying ability.

Many investors bold shares in other electricity companies, which would suffer if the bid failed, because share prices in the sector would no longer be buoyed by takeover fever. But if they accept the offer, they can reinvest in other electricity companies which are currently trading at a discount of £2 or more to Northern. The bid is sneakily structured so that investors who would rather reject it will be penalised if it goes ahead. Those who turn it down could then be forced to accept paper which is less attractive than the £11 cash available to those who accept by Friday's deadline.

Favouring some shareholders over others may not be fair. But when it comes to the crunch, Northern's prospects are not exciting enough to forgo Trafalgar's cash.

FINANCIAL TIMES
COMPANIES & MARKETS

Monday March 6 1995

MARKETS
THIS WEEK

GERARD BAKER:
GLOBAL INVESTOR
The Japanese authorities are owed an apology. For months cynical journalists and analysts have accused them of running a crude market-support operation, to prevent share prices from falling to their proper market-clearing level.
Page 20

MARTIN WOLF:
ECONOMIC EYE
There was no obvious systemic financial risk in the fall of the Mexican peso and none in the collapse of Barings aither. The view that such risks are all-pervasive is a bogey whose effect is to make central bankers seem more important than they actually are. Page 20

BONDS:
Small sovereign nations looking to borrow funds on international capital markets may find a valuable lesson in Tunisia's experience. By playing investment banks against each other, Tunisia has been been able to drive a hard bargain in international lending markets and lower its borrowing costs. Page 22

EQUITIES:
London – Analysts remain optimistic that "UK plc will hit 1994 forecasts", as NatWest Securities has it. New York – Friday'a stock market hardly seemed to notice as the dollar hit a record low against the Japanese yen. Page 23

EMERGING MARKETS:
It was Carnival last week, but the carnival atmosphere was not much in evidence in Latin America's financial markets. Page 21

CURRENCIES:
D-Mark strength, dollar weakness, tension in the exchange rate mechanism, ineffectual central bank support. Currency markets have been here before. Page 21

COMMODITIES:
This week is expected to see the announcement of the results of two European Commission tenders for studies of former Soviet Union aluminium smelters. Page 20

UK COMPANIES:
Independent high street insurance brokers hope to raise more than ($79m), probably from venture capitalists, to provide funds for a new cost efficient insurance company aimed at combating competition from direct telephone-based rivals. Page 18

INTERNATIONAL COMPANIES:
Credit Suisse, the flagship bank of the CS Holding financial services group, reported a 17.7 per cent slide in net income last year to SFr1.2bn ($967m). Page 19

STATISTICS

Shanghai bond futures market faces a severe response, says **Tony Walker**

China to tighten rules governing futures exchanges

China plans to tighten severely the activities of its fledgling futures exchanges following last month'a near maltdown of the bond futures market in Shanghai amid allegations of price-rigging.

Mr Li Jiange, vice chairman of the China Securities Regulatory Commission, said at the weekend that the number of exchanges involved in futures trading would be further reduced and new regulations enacted.

The authorities would review the licences of institutions engaged in bond futures trading. Only five or six of the 10 involved would "get the nod", according to China Daily's Business Weekly.

The government would also scrutinise trading regulations governing dealings in bond futures as part of its plans to introduce new legislation to regulate futures markets.

China would conduct a further investigation of 15 futures exchanges dealing in such futures as commodities, building materials and currencies.

Domestic enterprises would be prohibited from speculating in financial derivatives, although trading with the aim of hedging will still be allowed under strict government supervision.

"The collapse of Britain's oldest investment bank, Barings, illustrates the need to strengthen control in this field," Mr Li told Business Weekly.

His remarks are likely to have reflected government concern at losses sustained by Chinese institutions on international exchanges. China International Trust and Investment Company (Citic) lost heavily on the London Metals Exchange last year.

Mr Li told Business Weekly that the "disruption of treasury bond futures trading in Shanghai highlighted the need for strict controls on the market, which carries high risks". Traders in Shanghai had engaged in a selling frenzy in the last minutes of trading on February 23 in an effort to force down the market to cover short positions.

The Shanghai Stock Exchange suspended trading, describing the situation as abnormal. It also cancelled trades conducted in the concluding eight minutes of business, and ordered brokers to unwind positions by negotiation and not through trading. "Such an event presents the best example of how dangerous the futures market can be without strict supervision," Mr Li said.

China would also seek to strengthen links internationally in its efforts to regularise its futures markets. This includes plans to sign a memorandum of "Futures Regulatory Cooperation" with Hong Kong this year.

The CSRC, China's watchdog for securities and futures markets, would seek closer cooperation with the US, Japan and the UK in the derivatives area.

But Mr Li ruled out the possibility of opening China's futures markets to international investors for the time being. "It is impossible for China to open up the futures market, or the A-share market (for local equities investors), before the renminbi becomes freely convertible," he said. China's markets were in the process of a "gradual opening", but were not yet ready to deal with buge inflows of foreign capital.

Cathryn Tremain
The way it was: on the floor of the Shanghai Securities Exchange

Strong demand shows in pricing of UK power sale

By Conner Middelmann in London

The sale of the UK government's 40 per cent stake in National Power and PowerGen, the two power generators, met with strong demand at home and abroad and was several times subscribed.

"We are delighted at the very strong demand from UK and international investors," a senior Treasury official said.

Reflecting investors' aggressive bidding and the phased payments, the prices were set above Friday's closing prices. The international offer price was set at 486p per share in National Power, 29p above Friday's close, and at 522p per share in PowerGen, 30p above the close.

The UK public offer prices, reflecting a discount of 10p per share, were set at 476p for National Power and 512p for PowerGen. The discount was offered in addition to incentives of either a 25p reduction in the price or up to 80 bonus shares available to investors who registered with share shops before February 14.

The final instalments, which are the same for both the public and international offers, were set at 136p per share in National Power and 142p per share in PowerGen. They are payable on September 17, 1996.

At the indicated minimum size of 40 per cent of the number of shares sold, the UK public offer would have been two times subscribed. Due to strong demand it was increased to 51.3 per cent of sharea being sold (excluding over-allotments), equal to 382m shares. Even after this increase, the shares were 1.6 times subscribed and not all applicants received a full allocation.

Another 5.3 per cent of the shares was allocated to the UK retail tender bringing the total allocation to UK retail investors to 56.6 per cent. A total of 40m shares were allocated to bidders in the retail tender and all Pep bids were met in full.

That left just 22.1 per cent of tha offering for international institutions which had bid aggressively for the shares. At the international offer price, their allocations of National Power shares were covered 6.5 times and allocations of PowerGen 9.1 times.

As part of the offer arrangements, National Power bought some 98m of its ordinary shares and PowerGen bought back some 60m, representing 7.7 per cent and 7.6 per cent of the companies' issued capital, respectively.

The partly paid shares will start trading today in London and New York.

Carlton steps into bidding battle for MGM cinemas

By Raymond Snoddy in London

Carlton Communications, the UK television and media services group, has entered the bidding for the MGM cinema chain, which is being offered for sale by Crédit Lyonnais, the loss-making state-controlled French bank.

The Carlton-led bid is believed to be worth up to £170m ($270m). It heads a consortium including Goldman Sachs, the US investment bank, the cinema chain's management and Polygram, the music and film unit of Philips.

The bid for what is the old ABC chain involves 120 traditional cinemas and 18 multiplexes, a total of 500 screens in the UK and Ireland. The Carlton consortium is not bidding for MGM cinemas in Denmark and the Netherlands.

Competition to buy the chain is believed to be intense. Those interested range from Craig, a US property and finance group; Warner Bros, part of Time Warner; National Amusements, the family cinema company of Mr Sumner Redstone, chairman of Viacom; and Sony, the Japanese electronics and entertainment group. The potential interest of Rank Organisation, owner of the Odeon cinema chain, is limited by monopoly considerations.

With the long-term decline in cinema attendances reversed, MGM cinemas in the UK are believed to have made a profit of around £25m last year.

Goldman Sachs, which has been working with the management team at the cinema chain, went to Carlton with the proposition. Although Carlton and Goldman would start out equal partners with large minority stakes, Carlton has an option to take up to 100 per cent.

Mr Michael Green, the Carlton chairman, has close business links with the cinema industry through the company's ownership of Technicolor, the international film processing and cassette duplication company.

MGM cinemas have passed through many hands in recent years. Thorn EMI Screen Entertainment sold the cinemas to the Australian businessman Mr Alan Bond. He sold them on a week later to Mr Yorum Globus and Mr Menachem Golan of Cannon. They in turn sold on to Mr Giancarlo Paretti, the Italian financier, who defaulted on a $1bn loan taking the chain into Crédit Lyonnais' ownership.

OECD warns on scale of privatisation programmes

By Conner Middelmann

Current privatisation programmes in OECD countries are so large that their implementation will have a powerful impact on the countries' financial systems, the OECD states in a report published yesterday*.

It estimates that privatisation programmes could result in equity offerings totalling $200bn during the next five years, and says a crucial issue is whether the markets will be able to absorb this.

"Placement of the large portions of equity related to privatisation went remarkably well in 1994, in spite of difficult market conditions," the report says. "On balance it would be reasonable to conclude that the markets will also be able to absorb future large-scale offerings."

Citing industry sources, the OECD forecasts that the proceeds from privatisation in Europe alone are expected to amount to some $40.5bn in 1995 (after about $50.8bn in 1994), with the largest offerings expected in France ($9.9bn), the UK (8.5bn) and Italy ($6.5bn).

With the privatisation of Deutsche Telekom (DM15bn) due in 1996, the OECD estimates that privatisation offerings in that year will surpass the levels attained in 1994 and 1995.

The report warns of a number of uncertainties. Some recent privatisations, have revealed signs of fatigue among retail investors. If this trend is confirmed, "it is possible that future privatisations will have either to reduce the tranches specifically directed to retail investors or to enhance the attractiveness of the offering to these investors".

Also, equity prices need to remain strong to support investor appetite for new issues, the report says. "Any downturn in equity markets that leads to shifts in portfolio allocations away from equity could undermine current privatisation plans."

While the report states that in some cases large-scale privatisations may have had a negative effect on share prices in 1994, it finds that the decline was primarily a consequence of rising interest rates and a deterioration of market sentiment.

Privatisation and Capital Markets in OECD Countries, published in the OECD's February issue of Financial Market Trends.

This week: Company news

VOLVO

Record profits reflect a rich year for Sweden

Volvo, the motor manufacturer, will put the icing on a rich cake of big Swedish 1994 corporate earnings when it reports record profits for the year on Wednesday.

Analysts are expecting pre-tax profits of at least SKr15.2bn ($2bn), with some forecasts as high as SKr16.6bn, easily the biggest of Sweden's powerful exporting groups. The result will be flattered by a SKr5bn capital gain stemming from Volvo's programme to sell off its non-core assets. The underlying figure, however, will still reflect a boom year for the company.

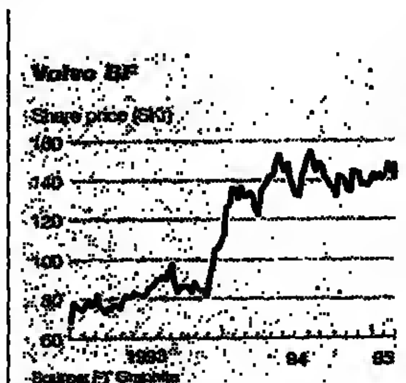
Strong demand in the US, the beginning of recovery in Europe and the benefits of the sagging Swedish krona, combined with sharp productivity gains achieved in the past three years to banish painful memories of the failed merger with France's Renault in 1993.

With plenty of "upside" still left in the cycle, at least two more bumper years are predicted. The profits stream, combined with the SKr40bn proceeds anticipated by the end of next year from its assets sale, is making Volvo one of the world's most cash-rich motor companies.

It still faces some challenges, however. The operating margins of around 8 per cent in the trucks operation and much less for cars, are still well below the target of a 7 per cent average for the cycle.

With no "poison pill" against a takeover in its ownership structure, mischievous voices have begun to speculate that Volvo could become a target.

Volvo also has its hands full managing its assets sale. It was embarrassed last week when a senior executive at BCP, the big consumer products subsidiary due for break-up and disposal this year, publicly opposed foreigners buying the food and drinks operations.



OTHER COMPANIES

Parisian delight for engineering group

ABB Asea Brown Boveri, the global power engineering group, is abandoning its Swedish and Swiss roots and holding its annual press conference on Wednesday in Paris. After five dull years, orders, profits and margins all picked up markedly in the first nine months of last year, thanks to a capital goods boom in the Far East and recovery in Europe. The full-year net profit will shine compared with 1993, when an extraordinary $596m restructuring charge depressed the final result to $72m.

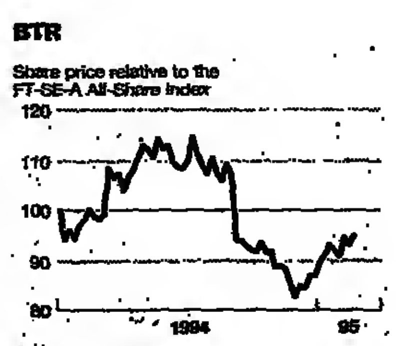
■ **Böhler-Uddeholm:** Another chunk of the collapsed state-owned Austrian Industries is being trotted out for investors on Wednesday. An underwriting syndicate led by Creditanstalt-Bankverein aims to raise Sch5.5bn ($535m) from the privatisation of Böhler-Uddeholm, a world leader in tool steels and forging and welding equipment. Most of the proceeds will go to ease the Austrian government's deficit.

■ **Valeo:** The French automobile components group is expected to show a strong increase in net profits for 1994 when it unveils its results on Wednesday. In the first half of last year net profits rose by 27 per cent to FFr487m ($95m) compared with FFr705m for all of 1993. The rise reflects stronger demand from the international automobile industry and the impact of efficiency measures. Last week, Valeo finalised an agreement to merge its air-conditioning and heating systems with Siemens of Germany.

■ **RTZ:** Surging copper and other metal prices last year helped the world's biggest mining company to more than double its net profits in 1994, according to analysts. Their forecasts for the British group's profits, to be announced on Wednesday, range between £530m and £600m, against £280m in 1993.

■ **Uni Storebrand:** The market awaits sharply weaker 1994 results on Thursday from Norway's largest insurer. In the previous year Uni benefited from realised gains of NKr3.4bn ($526m) on securities and bonds but these did not materialise last year. For 1994, local analysts say pre-tax profit will plunge to around NKr385m from nearly NKr1.4bn the previous year. They expect the result to be weakened by between NKr100m and Nkr200m after Uni's decision to spin-off its international reinsurance business into a separate, bourse-listed company. The result will also reflect sharper competition and pressure on margins.

■ **BTR:** Margins will receive the most scrutiny when the UK industrial conglomerate announces its results on Thursday. The City received a nasty turn in September when BTR revealed that its famously fat margins had been squeezed by higher raw material costs in the first half.
The City will also be looking for some improvement in the underlying sales growth. Analysts are looking for something between 7 per cent and 7½ per cent in the second half, compared with only 6 per cent in the first half. Most analysts forecast profits, excluding disposal gains, of around £1.3bn, up from £1.15bn.



■ **Rolls-Royce:** Pre-tax profits for 1994 are expected to be £95m, against £76m last time, when announced on Thursday. The results come at a time of increasing air traffic, although it is not yet clear how positive the effect will be on engine manufacturers. Airlines have been postponing aircraft orders and appear to be approaching the upturn with caution.

■ **Aker:** The Norwegian cement, oil and gas technology group, is expected on Friday to report a reduction in 1994 pre-tax profits to between NKr545m and NKr657m, from NKr851m the previous year.

Companies in this issue

Broker Direct sets £52m target

By Ralph Atkins, Insurance Correspondent

Independent high street insurance hrokers hope to raise more than £50m, probably from venture capitalists, to provide funds for a new cost efficient insurance company aimed at combating competition from direct telephone-based rivals.

The "Broker Direct" project, unveiled last summer, is expected to be launched by the end of the year – six months later than originally envisaged. ft is supported by the fnstitute of Insurance Brokers which represents mainly small, independent operators which face a threat from companies such as Direct Line, owned by the Royal Bank of Scotland.

Mr Frank Shaw, bead of the Broker Direct project, told a IIB conference in Brighton yesterday that he was looking to raise £52m at the end of the first year of operation. About £7m would be accounted for by start-up costs. The remainder would support the underwriting and meet regulators' solvency requirements.

Mr Shaw envisages the amount raised increasing to £100m at the end of the fifth year.

So far £800,000 has been raised from about 1,200 brokers to develop Broker Direct.

Mr Shaw said premium income was expected to reach £200m at the end of the third year, equivalent to about 750,000 policies. Broker Direct will sell motor insurance initially, moving into household policies at a later date.

Though the direct writers will continue to have the advantage of no brokers' commissions, Broker Direct will have substantially lower marketing and sales costs. Mr Shaw said the use of more advance computer systems would furtber reduce expenses.

Publishers hope for meeting with Thorn

By Raymond Snoddy

The Publishers Association is hoping to arrange a meeting this week between pnblishers and Thorn EMI following its £36m acquisition of Dillons from Pentos' receivers.

While there is relief in the publishing industry that Dillons is now under stable new ownership, there is equal concern about losses publisbers may face in the short term.

Virtually every publisher of any size is owed money by Dillons – an estimated £20m-£25m in total. Most have not yet been paid for Dillons' Christmas sales.

There is also concern abont the stock, whicb could be worth a further £20m. Some publishers have "retention of title" agreements with Dillons, which should mean they still own books on its shelves, and otber books are on sale-or-return.

Thorn EMI has said that Dillons' liabilities are being examined. However, it may be two weeks before the full picture emerges. Although Thorn has not yet indicated how it intends to compensate pnblishers, it is clear that it wants to develop a good relationship with the industry.

TI planning legal advice over fraud allegations

By Tim Burt

TI Group, tbe specialist engineering and aerospace company, said on Friday it was taking legal advice in the UK and US over allegations that one of its subsidiaries defrauded the United States Air Force of more than $20m (£12.5m).

Although the company bas not received formal notification of any legal action, it has asked lawyers to examine a "wbistleblower" case brought by a former employee of Dowty Woodville Polymer, the subsidiary which supplies the USAF with seals for swing wing aircraft.

Legal documents filed in New York allege tbat Dowty Woodville Polymer – part of TI since its 1992 acquisition of Dowty Group – overcharged the US government for more tban 10 years on component contracts for the F-111 strike aircraft and B1-B bomber.

The claims have caused concero among City analysts, wbo on Friday drew parallels witb a whistleblower case involving Lucas Industries, which was fined $18.5m earlier this year after admitting its staff falsified quality certificates for gearboxes.

As in tbe Lucas case, the US Justice Department bas joined the action, which could result in triple damages of $60m if TI is found liable.

Lawyers acting for Mr Jeffrey Thistlethwaite, a former manager at Dowty Woodville Polymer, claim that he warned tbe company in 1991 that it was overcbarging the US government on the wing seal contracts.

Accusing tbe company of providing false information, Engel & McCarney, the New York law firm, alleges: "Tbese fraudulent data included labour and overhead costs nearly triple the amount that [tbe] defendants knew to be their actual costs."

Its case centres on contracts worth more than $52m for 7,000 F-111 wing slot seals and some 960 seals for the B1-B bomber.

"More than $20m of unlawful overcharges were included in this cost as a result of the defendants' fraudulent practices," according to the law firm.

Mr Thomas Engel, a senior partner, said the case was the first in which the US Justice Department has joined an action involving components supplied from outslde the country.

TI, which this week is expected to report a 14 per cent increase in full-year profits to about £145m, said its policy was to price on a fair and competitive basis.

Select returns to black

By Geoff Dyer

Labour market bottlenecks have belped Select Appointments (Holdings), the recruitment agency, to return to the black for the first time in five years, it will announce today.

The company, which was taken over by Waverley, a group of Swiss investors in 1991, made a 1994 pre-tax profit of £2.61m, after a loss of £642,000 previously. Sales nearly trebled to £89.8m (£34.9m) – excluding tbe seven acquisitions during the year, turnover was £62.6m.

Mr Tony Martin, chairman, said: "There is a skills shortage worldwide from lorry drivers to compnter engineers."

The North American operation, whicb in September acquired New Boston, a specialist in compnting staff, boosted operating profits from £266,000 to £2.27m, on turnover of £42m (£4.5m). Mr Martin said that demand for computer and accounting staff had been particularly strong.

In Europe, althougb sales jumped to £32.7m (£21m), a reduced £33,000 (£543,000) loss was recorded. Mr Martin said that management time would be concentrated on the European market this year.

The proportion of sales from secretarial recruitment fell from 90 per cent to 62 per cent and is expected to fall below 50 per cent this year.

Earnings per share were 0.57p, against 0.83p last year after the gronp had £2.54m of dehts to Waverley forgiven. There is no dividend.

PTS placing details soon

By Andrew Taylor, Construction Correspondent

PTS, which claims to be Britain's largest independent merchant of central heating equipment, is expected in the next few weeks to announce details of plans for a flotation raising about £11m, via a placing with institutional investors.

The issue is expected to value PTS at £17m to £19m.

The company, which this week is expected to announce an 84 per cent rise in 1994 pretax profits to £1.71m (£929,000) is likely to raise £3m to £4m in new money from the float.

This will be used to finance further steady expansion of the group, which operates in south Yorkshire, the Midlands, East Anglia and south-east England.

The rest of the casb will go to some existing institutional investors, which own about 75 per cent of the shares, and which are taking advantage of the flotation to reduce their holdings.

Second Consolidated Trust, a realisation fund which owns 31 per cent of the shares, is expected to sell all of its holding. Directors who own almost 8 per cent of the shares are expected to raise about £100,000.

The issue is being made when the market for central heating equipment is expected to grow sharply, as systems installed in the late 1970s and early 1980s need renewing.

British Gas, the industry's biggest customer, also is rationalising its operations. It intends to concentrate purchases from a smaller number of national and strong provincial chains to take best advantage of its buying power. PTS is included in a short list of companies still being interviewed by British Gas.

The business has made profits every year since its formation in 1984. It has expanded rapidly in the last few years and gross margins last year were 18.75 per cent.

Gearing, which at one stage topped 150 per cent in 1991, has fallen to a more manageable 58 per cent, following a £1.9m rights issue in 1993 and the sale and leaseback of the company headquarters, in Bletchley, Bucks, which raised a net £2m.

Golden Rose priced at 135p

By David Blackwell

Golden Rose Communications, the company formed to acquire London Jazz Radio in 1991, finalised its flotation on Friday, pricing its shares at 135p and giving a valuation for tbe group of £18.1m.

Some 3.93m shares have been placed with institutions for a total of £5.3m, or £4.88m net of expenses. Last montb Golden Rose said it was aiming to raise £5m to £6m.

Mr Mark Sebba, finance director, said tbe group would be repaying £1.5m debt. It would use the rest of the cash to develop existing businesses and look for furtber opportunities.

Golden Rose now operates London-hased jfm 102.2 and Manchester-based jfm 100.4. In May it will launch Viva!963, a London-based AM station aimed at women.

The placing was underwritten by Henry Cooke, Lumsden. Dealings begin on Thursday.

Rainford plans to raise up to £25m via flotation

By Geoff Dyer

Rainford Group, a maker of mecbanical and electromechanical components, plans to raise between £20m and £25m via a flotation to take advantage of growth in the mobile telephone market.

Ahout 60 per cent of sales come from designing and making equipment for mobile base stations for customers such as Nokia and Motorola.

Mr Barry Honghton, the founder chairman, said: "We have a lot of new contracts coming up so we need to strengthen our balance sheet to maintain the confidence of multinationals."

The placing, which is being sponsored and lead managed by SG Warburg Securities, wonld leave the group ungeared. About 35 per cent of the equity would be sold, valuing the group at £57m to £71m.

Mr Houghton said that a "substantial part" of the proceeds would go to the company. The family trusts of Mr Honghton and other senior executives, which have a 75 per cent stake, would keep a majority holding. Granville Private Equity, which currently owns the other 25 per cent, would maintain a stake of about 15 per cent.

In the nine months to December 31, Rainford made pre-tax profits of £3.7m on turnover of £43.3m.

Lucas to supply VW with fuel injection systems

By John Griffiths

Lucas Industries has signed its biggest ever motor components supply contract, with Volkswagen of Germany.

The deal, for an advanced diesel electronic fuel injection system, is expected to earn the UK automotive and aerospace group at least £1hn in sales over the next six to eight years and create up to 300 jobs.

The agreement coincides with a belated hut important hreakthrough hy Lucas into the world market for electronic anti-lock car braking systems.

A joint venture in the US with Sumitomo Electric Industries, Lucas's long-standing Japanese partner, will supply hoth Japanese and Nortb American car makers. Lucas miscalculated the importance of this market in the late 1980s, leaving it open to domination mainly by Robert Boscb and Alfred Teves, its German rivals.

Lucas and Sumitomo are jointly investing $40m in the venture, which is scheduled to produce 300,000 systems a year hy mid-1997.

The deals follow tbe restructuring undertaken under chief executive Mr George Simpson, the former Rover Group chairman brought into Lucas last year to sharpen the focus of the core automotive and aerospace businesses while disposing of peripheral interests.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Hoechst (Germany)	Marion Merrell Dow (US)	Pharmaceuticals	£4.5bn	Seeking US foothold
BPB Industries (UK)	National Gypsum (US)	Plasterboard	£708m	World leadership bid
YPF (Argentina)	Maxus Energy (US)	Oil & Gas	£475m	Seeking international status
Gehe (Germany)	AAH (UK)	Pharmaceuticals	£377.4m	Hostile distribution bid
Samsung Electronics (S Korea)	AST Research (US)	Computers	£239m	Stake continues SE expansion
Thermo Instrument Systems (US)	Unit of Fisons (UK)	Scientific instruments	£202m	Fisons starts rationalising
Boehringer Ingelheim (Germany)	Isis (US)	Pharmaceuticals	£18m	Part of wider collaboration
Saint-Gobain (France)	Thermax (UK)	Glass	£16.5m	Heywood Williams sale
Alders (UK)	MS McLeod (Australia)	Retailing	£15.3m	Third option for McLeod
Bowater (UK)	Celatose Industries Packaging (France)	Packaging	n/a	Food container buy

COMPANIES AND FINANCE

Luxottica defends bid for US Shoe

By Andrew Hill in Milan

Luxottica, the Italian manufacturer of spectacle frames, hopes to prevent a slide in its share of the North American market with its $1.1bn bid for US Shoe, the US retailer.

Mr Leonardo Del Vecchio, Luxottica's chairman, explained at the weekend that the bid, launched on Friday, was "an unavoidable defensive move" in the face of aggressive retailing and marketing by two chains of optical stores, LensCrafters, owned by US Shoe, and Pervision.

US Shoe has so far only issued a holding statement, urging shareholders to defer their decision on the offer until the company has considered it more closely.

Shares in Luxottica, listed in New York, fell by more than 18 per cent on Friday after it launched its cash tender offer for US Shoe at $24 a share.

Luxottica, which had sought a friendly agreement with US Shoe, intends to dispose of US Shoe's other retailing activities in footwear and women's clothing and keep the LensCrafters chain, one of the biggest in North America.

It would be Luxottica's first move into direct retailing of spectacles and sunglasses. But Mr Del Vecchio said the group could not have allowed LensCrafters and Pervision to increase their current 35 per cent shares of the North American market to 50 per cent, as they threatened to do.

He said the two companies were selling lower quality products sourced from the Far East at the same price as Luxottica glasses, which are manufactured in Italy. "[US Shoe] was also running promotions across the whole chain, using economies of scale which were not available to our clients," Mr Del Vecchio said.

If successful, the acquisition of LensCrafters would more than double Luxottica's annual turnover. The offer will close on March 30.

Earnings at Credit Suisse fall by 17.7%

By Ian Rodger in Zurich

Credit Suisse, the flagship bank of the CS Holding financial services group, reported a 17.7 per cent slide in net income last year to SFr1.2bn ($967m). Earnings were hit by a drop in trading profits and another big loss at subsidiary Swiss Volksbank.

Operating profit fell 36.1 per cent to SFr3.2bn, but the bottom line was helped by a 32 per cent drop in write-offs and provisions to SFr1.9bn, and net extraordinary gains of SFr226m.

The figures help explain the 22 per cent fall in 1994 net income to SFr1.33bn reported by CS Holding last Thursday. CS First Boston, the investment banking subsidiary, has already reported halved net income of $156m.

Two smaller group units, the Leu private bank and Elektrowatt power generation company, are due to publish their results today.

Income from trading dropped 48.7 per cent to SFr1.7bn, while net interest income fell 6.3 per cent to SFr2.6bn. Commission income was down 2.5 per cent at SFr2.5bn. Operating costs rose 4.4 per cent to SFr4.3bn, mainly because of acquisitions and the consolidation of Credit Suisse Fides Trust.

Credit Suisse's extraordinary gains came mainly from a SFr270m profit on the sale of a 10 per cent stake in its derivatives subsidiary Credit Suisse Financial Products to Swiss Reinsurance.

Japan drops sale of NTT shareholding

By Emiko Terazono in Tokyo

The Japanese government has been forced to give up its planned sale of Nippon Telegraph and Telephone stock, due to take place by the end of this month, because of the slump in the stock market.

This is the fourth consecutive year that the government, which had hoped to raise Y345.2bn through the sale of its 500,000 shares, has abandoned its plans. Ministry of finance officials said the state of the market would undermine smooth absorption of fresh supply.

The cancellation was expected among investors. The ministry had been heavily criticised for last November's listing of Japan Tobacco at a time when investor confidence was waning, which depressed the Tokyo market.

The government holds two thirds, or 10.2m shares, of NTT's outstanding shares.

Goodman Fielder down midway

By Emilia Tagaza in Melbourne

Goodman Fielder, Australia's largest food group, where dissident shareholders recently forced a management shake-up, has reported a pre-tax profit of A$87.7m (US$65m) in the six months to end-December 1994, down 3 per cent on the same period of 1993.

However, a A$30m (US$22m) write-down of the poultry business and a higher tax charge reduced profit after tax and abnormal items to only A$20.3m, down 67 per cent.

The company also announced the appointment of Mr David Clarke as chairman, replacing Mr John Studdy. Mr Clarke has been executive chairman of Macquarie Bank since 1985.

The six-month period saw a strong performance by the milling and baking group, which more than doubled profits to A$25.9m, but this was offset by a 33 per cent fall in the consumer food group's profit, caused mainly by intense competition to the group's margarine product.

Higher wheat prices and lower export rebates for the group's European export flour also depressed profitability.

The company said no interim dividend will be paid because of the lower profit and its effect on retained earnings.

Goodman Fielder also plans to continue its review of its business mix, which has so far resulted in the A$177m sale of its Asian operations and the proposed merger of its milling and baking business with that of South American food company Bunge.

TVX Gold in Greek acquisition

By Bernard Simon in Toronto

Canada's TVX Gold is to pay Dr11bn (US$47m) for Kassandra Mines, a base-metal producer in north-east Greece currently in liquidation.

Kassandra's assets include three silver, lead and zinc mines, milling facilities with a capacity of about 3,000 tonnes per day, and 314 sq km of mining concessions.

TVX Gold plans to spend about US$180m over the next three years to modernise the existing base-metal facilities, and to turn Kassandra into a sizeable gold producer by introducing new pressure oxidation technology.

Kassandra's ore reserves are estimated at 14m tonnes with a grade of 6.3 grams a tonne of gold, equal to 2.8m ounces; 100 grams per tonne of silver; 3 per cent lead; and 4 per cent zinc.

Output is expected to reach 190,000 ounces of gold equivalent in the first year of operation. Cash operating costs are estimated at less than $200 an ounce.

Hungarian venture fund

By Virginia Marsh in Budapest

The European Bank for Reconstruction and Development and Citicorp are investing US$20m in a US$60m Hungarian venture capital fund.

The EBRD said the Hungarian Capital Fund aimed to acquire controlling stakes in underperforming or loss-making medium-sized private or state companies and to restructure them. It will be the bank's first fully commercial investment fund aimed at restructuring companies.

The fund, which is due to close at the end of the month, will be managed by Bankar Ltd, a private Hungarian financial services company, and CVC Capital Partners Ltd, a privately-held company which advises Citicorp on its European venture capital investments. It aims to invest US$2m to US$6m primarily in industrial companies and to sell them within three years.

Philippine phone group slips

By Edward Luce in Manila

The Philippine Long Distance Telephone Company (PLDT), one of the four Philippine corporations to be listed on the New York Stock Exchange, saw a 5.9 per cent fall in net profits last year from 5.54bn pesos (US$213m) to 5.27bn pesos.

The appreciation of the peso against the US dollar in 1994, from $27 to $23 by the end of the year, was the main cause of the fall in profits. The company earns a high proportion of its revenues in dollars.

Overall revenues rose by 22.1 per cent to 22.24bn pesos, mainly because of increased long distance and local network use and the company's aggressive line installation policy in the wake of the government's decision to open up the telecommunications market to foreign competition.

International long-distance revenues, which accounted for 61.7 per cent of operating revenues, grew by only 1.5 per cent in 1994.

PLDT profits are expected to increase significantly in 1995, say analysts, due to the depreciation of the peso, which has already fallen back to $26, and the company's plans to supply value-added telephone services once the network has been fully digitalised.

NEWS DIGEST

Growth in lending helps lift profits at Rabobank

Rabobank, the Dutch co-operative bank, said strong growth in lending helped push up 1994 net profit by 14.3 per cent to Fl 1.28bn ($775m) from Fl 1.12bn the year before, writes Ronald van de Krol in Amsterdam.

With economic growth accelerating in the Netherlands and other markets, Rabobank's total lending portfolio expanded by nearly 10 per cent to Fl 179.9bn from Fl 164bn.

International lending was particularly buoyant, rising by 19.6 per cent despite the dollar's decline, though this was slower than the 26.5 per cent increase in 1993. Part of the reason for the increase was the acquisition of the Primary Bank of Australia, a leading bank in Australian and New Zealand agri-business, which is Rabobank's speciality.

The bank also benefited in 1994 from cost-control measures, which limited the rise in costs to 2.7 per cent, compared with an 8 per cent increase in 1993. Staff costs were virtually flat at 0.1 per cent after a 6.1 per cent rise the year before, reflecting a decline in the number of employees and the conclusion of moderate wage and pension-fund agreements.

Rabobank, the first to report 1994 results among the Netherlands' top three banks – the other two are ABN Amro and ING Group – said it expects a further improvement in its performance in 1995.

Portuguese bank shows advance

Caixa Geral de Depósitos, Portugal's largest bank, which is wholly state-owned, yesterday reported a 10 per cent increase in net profits to Es48bn ($315.9m) for 1994, writes Peter Wise in Lisbon. Total assets rose 16.2 per cent to Es5,079.3bn, but cash flow fell 10.5 per cent to Es122bn.

Deposits rose 13.4 per cent to Es3,610bn and loans to clients increased 5.4 per cent to Es1,914.6. Earnings from securities grew 20.4 per cent to Es989.1 per cent. Own capital rose 4.9 per cent to Es467.8bn.

CGD, which leads the mortgage market, said it contracted 30,309 new housing loans in 1994, up 12.2 per cent on 1993. The new loans totalled Es192.6bn, some 28.7 per cent more than in 1993.

It said term deposits rose 15.3 per cent, sight deposits grew 14.4 per cent and saving account deposits rose 9 per cent. CGD had 505 branches at the end of 1994, the biggest network in Portugal.

German group buys stake in MKB

Magyar Kulkereskedelmi Bank (MKB), the Hungarian Foreign Trade Bank, has become the first major state bank in the former Soviet bloc to be majority owned by western investors, writes Virginia Marsh in Budapest.

MKB, one of Hungary's top four state commercial banks, said that Deutsche Investitions und Entwicklungsgesellschaft (DEG), a German government development company, had bought an 8.33 per cent stake in it for an undisclosed sum.

Last July, Bayerische Landesbank (BLB), the Munich-based German bank, and the European Bank for Reconstruction and Development paid $58m for 42 per cent of MKB, the first large Hungarian bank to undergo privatisation, with BLB taking a 25 per cent stake.

Intercontinental traffic boosts Marconi

Companhia Portuguesa Rádio Marconi, Portugal's international telecommunications operator, achieved a 48 per cent lift in net profits in 1994 to Es6.18bn ($40.6m), due largely to a 13 per cent increase in intercontinental telephone traffic, writes Peter Wise in Lisbon.

Sales from telecommunication services rose 16 per cent to Es53.84bn, and turnover from other activities increased 13 per cent to Es1.58bn. Operating profits grew 92 per cent to Es16.4bn. Cash flow rose 23.7 per cent to Es11.7bn.

Mr João Mello Franco, Marconi's president, attributed the profit growth partly to a 48 per cent increase in productivity and a 1 per cent cut in total costs to Es39.02bn. Staffs costs fell slightly to Es8.27bn. The 1994 dividend was Es160, up 23 per cent from 1993.

Marconi, which helps run 30 telecommunications operations in 18 countries as well as Portugal's intercontinental telephone services, invested Es10.91bn in 1994, an increase of 102 per cent on 1993. Investments included a holding in Mensatel, Spain's leading paging service, and satellite communication operation in Hungary.

Total assets rose 3 per cent to Es67.41bn. Marconi, which is 51 per cent state-owned, has been valued at Es101.4bn by the government prior to its merger with state-owned Portugal Telecom. A holding of 25 per cent of PT is to be privatised in a global offer in May.

International business benefits SNC-Lavalin

SNC-Lavalin, Canada's biggest engineering and construction management group, posted a 68 per cent gain in 1994 earnings with strong international business, writes Robert Gibbens in Montreal.

Net profit was C$27.3m (US$19.5m) or C$1.75 a share, up from C$16.3m or C$1.08 in 1993 on revenues of C$845m against C$797m.

Fourth-quarter profit was C$5.4m or 35 cents a share, against C$3.9m or 25 cents, on revenues of C$274m against C$215m.

In both periods, most of the revenues came from engineering and construction. Manufacturing revenues were lower, with the reorganisation of two subsidiaries and divestment of two European units.

Among long-term contracts are a transit system for Kuala Lumpur, refinery modernisations in Russia and Trinidad and a new airport in Kenya.

FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / Gerard Baker in Tokyo

Whither Nikkei without Leeson largesse?

The Japanese authorities are owed an apology. For months cynical journalists and analysts have accused them of running a crude market-support operation, to prevent share prices from falling to their proper market-clearing level. We all guessed that these efforts by the finance ministry were the only thing that kept the Nikkei from collapse. Now we know better. There was indeed a share-support operation, but it wasn't the men from the ministry. It was in fact a piece of one-man munificence unmatched in recent financial history - Barings' last futile attempt to avert catastrophe.

But now the Nikkei 225 has to get by without Mr Leeson's largesse, how will it respond?

The first delicate stage of clearing the wreckage proceeded in an orderly manner last week. The undertakers appointed to inter the remains of Barings' futures contracts on the Osaka and Singapore exchanges did so expeditiously, but with somewhat predictable effects. Barings had bid up the prices of Nikkei futures to a considerable premium over the cash prices of the underlying stocks. That encouraged arbitrageurs to buy cash stocks and sell futures short. The disposal of Barings' positions last week forced futures' prices down and the arbitrage positions began to unwind accordingly.

But the crash that threatened in the early part of the week as the forced selling hit the fan had receded by the weekend as relief spread at the news that all the outstanding futures contracts had been liquidated quickly.

There may still be other short-term aftershocks. It is not clear how many off-exchange contracts continue to overhang the market. Nor is it clear what will happen to June futures contracts in the next week. Since Barings was the main buyer, sentiment is likely to be adversely affected, and many contracts may not be rolled over on the March settlement day, this Friday.

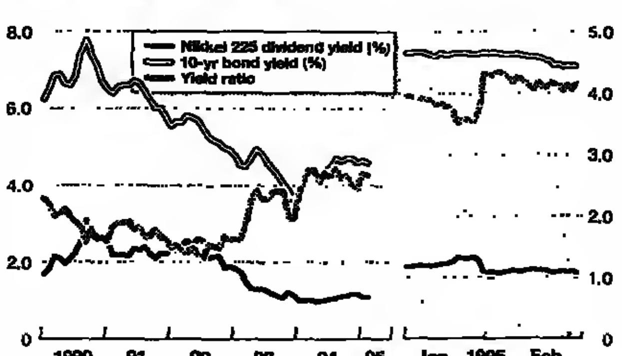
Another uncertainty is the effect of Barings' demise on the liquidity of other financial institutions. The Japanese financial system is still stalled halfway towards the road to recovery. Last week there were rumours, not denied by the leading names mentioned, that several large banks had lent to Barings to enable it to cover its margin calls. Those loans are now likely to join the long list of non-performing advances that fill the assets column of banks' balance sheets.

Yet despite these uncertainties there was a sense in Tokyo at the weekend that the Barings affair had brought the market to some kind of watershed. The Nikkei currently stands more than 20 per cent below the peak of last year's mini-rally, and is off nearly 14 per cent since the start of the year. Since no-one is around to support prices for incomprehensible reasons any more, the talk at last is of fair value. The Nikkei is currently "priced for disaster," was how one analyst put it. And after the past few months' succession of catastrophes, including earthquakes, banking woes and now Barings, it is starting to look as if the news could not get worse.

With economic recovery in train, and earnings at last expected to improve in the current financial year, there are some grounds for optimism. While prospective p/e ratios remain high by international standards, they have fallen to their lowest level since the nadir of 1992; price to book value ratios are also at three-year lows.

And there is better news from the bond market. Having been oversold last year, bonds have been rallying strongly in recent weeks. As a result the bond-equity yield ratio, though still high, now seems to have turned decisively from its peak of a month ago.

Overvalued equities?



Source: Nomura Securities

Total return in local currency to 2/3/95

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.12	0.04	0.09	0.10	0.17	0.12
Month	0.51	0.19	0.42	0.46	0.71	0.55
Year	4.44	2.31	5.83	6.05	8.50	5.25
Bonds 3-5 year						
Week	0.22	0.12	0.23	0.38	-0.65	0.03
Month	1.96	1.26	1.12	1.02	-0.26	0.76
Year	1.93	4.77	3.76	2.24	3.25	1.61
Bonds 7-10 year						
Week	0.39	0.30	0.14	0.01	-1.96	-0.28
Month	2.46	2.15	1.11	1.22	-2.33	0.37
Year	0.92	4.52	1.82	-2.18	-4.55	-1.03
Equities						
Week	-0.3	-2.2	0.0	-0.8	1.4	-0.4
Month	2.7	-6.7	3.8	0.3	-5.2	0.3
Year	8.1	-15.5	2.8	-12.8	2.8	-3.9

Source: Cash & Bonds - Lehman Brothers. Equities-© NatWest Securities.
The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co. and NatWest Securities Limited.

But still somehow all of this has the faintly familiar sound of straws being clutched at. The most important lesson that should be drawn from the Barings debacle is the way in which it has underlined the chronic demand/supply imbalance in the Japanese equity market. For some time now it has been axiomatic in Tokyo that Japanese investors are "strategic sellers and tactical buyers", under pressure to avoid risk, and anxious to divest themselves of their holdings of domestic equities. At times in recent weeks it seemed as though there was just one buyer and thousands of sellers.

This judgment has prompted Mr Nick Knight, equity strategist at Nomura Securities in London, to downgrade Japan in his equity portfolio from 20 per cent to 16 per cent.

Mr Knight says that despite the Barings support operation, the weight of generalised selling had still been pushing the market down. "It is not easy to see why the underlying downward pressure should abate," he said.

That pressure is, in fact, almost certain to increase in the next month at least. Companies are now busy dressing their accounts for the year-end of March 31. That exercise always requires them to sell large quantities of equities to realise gains on stocks bought years ago.

And even the prospects for the customary second quarter rebound are not that promising. The big domestic investors, such as life insurers, are under mounting pressure to achieve guaranteed returns in the next 12 months, after heavy losses in the past few years. They will be even more risk averse. According to some brokers there are already signs that allocations for the new financial year will involve downgradings of equities. Meanwhile, non-financial institutions are still looking to push their shareholdings lower, gradually unwinding the web of cross-shareholder relationships that has tied them together for decades.

The market may at last be starting to provide a value that can be described as "fair by international standards". Finding any buyer, other than the occasional swashbuckling foreigner, who is prepared to prove that proposition, still looks a difficult task.

COMMODITIES

CIS aluminium towards 2000

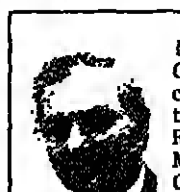
This week is expected to see the announcement of the results of two European Commission tenders for studies of former Soviet Union aluminium smelters.

A "source at the [European Union's] International Market and Industrial Affairs Directorate" was reported in Metal Bulletin magazine last week to have said: "Two studies were tendered for in mid-February. The first was for a strategic diagnostic study of the overall Russian aluminium sector and the second was a feasibility study to look at investment possibilities for four specific smelters. Two of them, Volgograd and Krasnoturinsk, are in the Urals and Bratsk and Krasnoyarsk are in Siberia."

Bidders for the first study, which is expected to take five or six months, include Metal Bulletin Research, the Commodities Research Unit, Arthur D Little and the Cast consultancy. Among those for the second, taking 11 or 12 months, are Arthur D Little, Pechiney, the French producer, VAW of Germany and Idom, a consultancy that groups Italimpianti and Inespal of Spain.

The prospects for bringing the former Soviet aluminium sector into the 1990s are a matter of widespread interest in western industry. The unfettered exports that followed the collapse of the Soviet Union in 1989 as the Russians scrambled for hard currency are still overshadowing the western aluminium sector in the form of excessive stocks. But these stocks are falling quickly and with the world seen as moving, albeit fitfully, into a period of sustained growth the Russian smelters could before too long be regarded as a source of much needed extra supplies.

● Other events this week include Metal Bulletin's three-day Metals & Minerals Latin America III Conference, which began in Santiago, Chile, yesterday. Among the issues being covered are inward investment, the privatisation process, base metals versus precious metals, the cost of mining and metals production and the prospects for regional consumption growth.



Economic Eye / Martin Wolf

Myths of systemic risk

Mr Alan Greenspan, chairman of the US Federal Reserve, and Mr Michel Camdessus, director-general of the International Monetary Fund, have argued that Mexico must be rescued, to contain "systemic risk". Mr Eddie George, governor of the Bank of England, insists that Barings did not have to be saved, because there was no such risk. So what is systemic risk? Is it any more than the excuse advanced when the authorities wish to mount a rescue.

Contagion is one element. Short-term lenders to the Mexican government, battered by the peso's devaluation, want to take their money out. Since Mexico does not possess the liquid assets with which to satisfy them, their rush for the exit is made worse by the threat of exchange controls. That fear may then spread the illness to innocent borrowers.

Contagious panic can also infect financial institutions. Direct contagion occurs when institutions are exposed to one another: through the payments system, for example. Indirect contagion arises when the failure of one financial institution leads investors to question the soundness of others. The ensuing panic may bring sound institutions down with unsound ones, like so many skittles.

Contagion is a necessary, but not a sufficient, condition for a financial collapse. Mexico's devaluation did threaten the wealth of those who had invested there, but they had been rewarded for the risks they ran. Its difficulties may also threaten a number of otherwise sound countries. Intervention can be justified, therefore, by the desire either to help the US's neighbour or to keep innocent countries out of danger. But this has little to do with the global financial system.

Some also argue that the credit of London has been undermined by the collapse of Barings, which would again imply contagion. If there were such negative effects on other banks, it was up to them to save Barings. What business was this of British taxpayers?

If neither Mexico nor Barings threatened the financial system, what might do so? The classic danger is of an unchecked panic, resulting in bank collapses and a sharp contraction of the money supply. Yet such a crisis can always be halted, since there is no limit to the money a central bank can create.

Walter Bagehot laid down the rules in his classic, *Lombard Street*, published in 1873: "loans should only be made at a very high rate of interest"; and "at this rate these advances should be made on all good banking securities, and as largely as the public asks for them". These rules would ensure liquidity, but leave imprudent banks to fail. "If the banks are bad," warned Bagehot, "they will certainly continue bad and will probably become worse if the government sustains and encourages them. The cardinal maxim is that any aid to a present bad bank is the surest moda of preventing the establishment of a future good bank".

Bagehot also remarked that "adventure is the life of commerce, but caution, I had almost said timidity, is the life of banking". Bankers should indeed be timid, because their business is intrinsically so risky. Banks promise to repay depositors, at par and often on demand, while their assets are vulnerable to both market and credit risk. To make a commercial return, all banks are also highly leveraged. The Basle accord, for example, requires them to hold core capital equal to 8 per cent of assets. Consequently, only a modest fall in the value of the assets of what is officially deemed a sound bank would render it insolvent.

Deposit insurance was introduced to increase confidence in this inherently rickety structure. For insured deposits, however, this eliminates the difference between a sound and an unsound bank. The "too big to fail" doctrine exacerbates the moral hazard. With the aim of making banks safer, the authorities have encouraged them to become more dangerous. Meanwhile, the march of technology has undermined their competitiveness as financial intermediaries, further encouraging them to take risks.

One response has been increased reliance on trading profits. The dramatic growth in derivative trading, shown in the table, largely reflects a desire by economic agents for insurance against risks. But the provision of the insurance is itself risky. Because of the speed with which positions can change, trading in such instruments is also almost impossible to regulate. If the management of Barings did not know what was going on in Singapore, how could the Bank of England?

What is to be done? One alternative would be to tighten regulation still further. But this is probably hopeless if banks are to engage in the whole range of modern financial activities. It is possible to focus on risk-management systems rather than on specific activities, but no such system can be made idiot- or greed-proof.

The other alternative would be to limit deposit insurance to safe banks: those that invest solely in relatively short-term, prime securities. The question then would be how to respond to the failure of a large, uninsured institution. The answer would be a return to Bagehot. System-wide runs would be avoided by the old-fashioned expedient of advancing money, without limit, to institutions offering good security. But any bank found insolvent would be put into orderly liquidation.

Depositors would have to diversify their investments. Banks would have to explain what risks they were running. Most important, the argument that systemic risks are all-pervasive would be revealed as a bogey whose effect is to make central bankers seem more important than they actually are.

The rise and rise of derivatives

Instruments	Notional principal outstanding, $bn 1990	1991	1992	1993
Exchange-traded instruments	2,291.7	3,523.4	4,640.5	7,839.3
Interest rate futures	1,454.1	2,157.1	2,902.2	4,960.4
Interest rate options	599.5	1,072.6	1,385.4	2,362.4
Currency futures	16.3	17.8	24.5	29.8
Currency options	56.1	61.2	80.1	81.1
Stock market index futures	69.7	77.3	80.7	119.2
Stock market index options	96	137.4	167.6	286.4
Over-the-counter instruments	3,450.3	4,449.4	5,345.7	-
Interest rate swaps	2,311.5	3,065.1	3,850.8	-
Currency swaps	577.5	807.2	860.4	-
Other swap-related derivatives	561.3	577.2	634.5	-

Sources: Futures Industry Association, various futures and options exchanges, ISDA and BIS

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MARCH 3 1995 US Dollar Index	%chg since 30/12/94	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 30/12/94	Gross Div. Yield	THURSDAY MARCH 2 1995 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (68)	153.34	-4.8	140.05	97.28	121.68	146.95	-0.1	4.01	164.81	153.56	100.11	124.96	146.40	180.82	157.85	171.46
Austria (16)	168.36	3.6	172.80	112.77	141.07	141.31	-4.0	1.15	187.18	174.51	113.64	142.09	142.13	198.89	167.46	186.01
Belgium (36)	178.17	4.8	180.76	104.92	131.24	128.32	-2.9	4.30	173.08	181.46	105.26	131.38	128.37	177.04	161.53	164.24
Brazil (28)	118.60	-27.3	108.29	70.69	88.41	187.54	-26.3	1.77	119.78	111.72	72.83	90.97	187.93	-	-	-
Canada (103)	125.54	-2.2	115.47	75.36	94.27	128.36	-2.3	2.72	125.66	117.22	76.42	95.38	127.89	141.01	120.54	134.17
Denmark (33)	263.60	5.5	243.28	156.77	196.80	206.50	-0.5	1.49	263.37	245.68	160.17	199.92	207.90	275.27	236.81	261.69
Finland (24)	183.41	-0.3	169.20	110.42	138.12	170.64	-7.7	1.19	183.21	170.91	111.42	139.07	171.88	201.41	133.86	148.05
France (101)	166.75	2.0	152.17	99.31	124.22	131.93	-3.6	3.26	164.88	153.81	100.27	125.16	132.64	181.44	157.79	173.10
Germany (58)	153.90	8.8	140.44	91.65	114.65	114.65	0.4	1.83	151.63	141.45	92.22	115.10	115.10	153.90	129.25	129.25
Hong Kong (56)	334.15	2.5	304.95	199.00	248.93	331.72	2.4	3.85	336.75	314.14	204.80	255.63	334.28	419.14	277.40	397.47
Ireland (16)	215.54	4.5	196.68	128.35	160.57	188.35	0.1	3.45	214.75	200.33	130.60	163.02	191.51	218.80	177.56	187.28
Italy (58)	72.99	-2.8	66.60	43.47	54.37	90.30	-0.6	1.72	73.84	68.88	44.91	56.05	91.65	97.78	67.25	73.08
Japan (484)	145.15	-7.5	132.47	86.45	108.14	68.45	-12.7	0.68	141.21	131.73	85.88	107.10	65.88	170.10	136.95	154.36
Malaysia (97)	488.50	1.9	445.77	290.92	363.91	479.80	1.8	1.77	488.07	455.30	296.83	370.50	479.80	504.76	398.16	504.70
Mexico (18)	784.15	-44.8	715.88	467.00	584.15	5174.09	-32.1	2.10	798.94	745.29	485.88	606.47	5175.62	2414.12	752.84	2258.44
Netherland (19)	228.89	5.1	208.69	136.20	170.37	167.94	-2.5	3.58	226.43	211.22	137.70	171.88	169.24	228.69	181.28	198.06
New Zealand (14)	73.11	3.8	66.72	43.54	54.46	60.77	4.0	4.85	73.08	68.17	44.44	55.47	61.21	77.20	62.05	69.45
Norway (23)	209.83	-1.8	191.47	124.96	156.31	180.46	-7.8	2.15	210.52	196.39	128.03	159.81	184.42	216.03	177.53	201.12
Singapore (44)	354.22	-6.0	323.24	210.96	263.88	238.04	-5.8	1.81	353.58	329.82	215.02	268.39	236.04	401.36	294.66	332.30
South Africa (59)	311.69	-7.4	284.42	185.62	232.19	264.67	-11.5	2.56	309.77	288.97	188.39	235.14	265.07	342.00	205.55	248.93
Spain (38)	135.40	2.5	123.55	80.63	100.86	129.86	-1.2	4.37	134.78	125.73	81.97	102.31	131.43	150.21	124.87	142.49
Sweden (48)	239.18	2.5	218.26	142.44	178.16	256.94	0.1	1.87	239.16	223.10	145.45	181.54	259.74	247.40	196.70	214.09
Switzerland (47)	175.28	3.1	159.94	104.38	130.57	131.73	-1.7	1.85	173.38	161.73	105.44	131.61	133.21	175.28	149.91	159.23
Thailand (46)	143.90	-3.0	131.31	85.70	107.20	139.08	-9.8	3.06	147.22	137.34	89.54	111.76	142.45	-	-	-
United Kingdom (204)	199.11	-2.2	181.68	118.58	148.33	181.69	-1.6	4.34	195.53	182.40	118.92	145.43	182.40	205.58	181.11	199.26
USA (513)	198.73	5.8	181.36	118.35	148.05	198.73	5.8	2.85	198.02	185.28	120.79	150.77	198.62	199.82	178.95	188.39
Americas (662)	181.72	4.3	165.82	108.22	135.37	152.48	4.5	2.82	181.61	169.41	110.45	137.86	152.36	-	-	-
Europe (720)	174.58	3.3	159.31	103.97	130.05	147.82	-1.8	3.21	172.45	160.87	104.87	130.90	148.87	176.01	160.59	166.93
Nordic (128)	231.23	3.0	211.00	137.71	172.25	207.00	-1.4	1.72	230.30	214.84	140.06	174.82	209.78	235.72	197.70	208.31
Pacific Basin (803)	153.57	-6.5	140.14	91.46	114.40	96.30	-10.8	1.28	150.18	140.09	91.33	114.00	95.87	176.98	145.83	163.70
Euro-Pacific (1529)	162.23	-2.4	148.04	96.61	120.85	118.18	-7.0	2.13	159.36	148.66	96.92	120.97	118.22	175.14	154.73	164.89
North America (616)	184.26	5.5	177.27	115.69	144.71	193.97	5.5	2.84	194.10	181.07	118.04	147.34	193.83	195.38	175.67	166.02
Europe Ex. UK (516)	157.38	4.0	143.81	93.73	117.24	127.94	-1.0	2.57	155.97	145.49	94.85	118.39	126.93	158.12	144.12	148.35
Pacific Ex. Japan (325)	235.85	-1.0	215.23	140.46	175.70	208.90	0.2	3.28	237.09	221.17	144.19	179.97	210.26	273.13	211.19	254.94
World Ex. US (1737)	162.28	-3.0	148.08	96.64	120.88	119.12	-7.3	2.15	159.55	148.83	97.03	121.11	119.16	176.65	155.42	168.28
World Ex. UK (2046)	170.66	-0.2	155.73	101.64	127.13	138.82	-2.0	2.20	168.93	157.59	102.74	128.23	136.78	178.59	163.46	170.04
World Ex. Japan (1766)	168.71	3.3	173.12	112.98	141.32	177.30	1.5	2.99	188.84	176.10	114.84	143.35	177.63	192.00	176.34	184.25
The World Index (2250)	173.16	0.1	158.01	103.12	128.98	142.67	-2.8	2.41	171.27	159.77	104.16	130.01	142.87	180.80	165.92	172.80

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local). Nordic: Dec 30, 1988 = 139.55 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local). Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Markets closed 3/3/95: Malaysia and Singapore.

EMERGING MARKETS: This Week

The Emerging Investor / Stephen Fidler

Little to celebrate in Latin America

It was Carnival last week, but the carnival atmosphere was not much in evidence in Latin America's financial markets. In fact, save for a late rally on Friday in Argentina's stock market, things just went from bad to worse.

The relentless bearishness continued in Mexico. Political events took on a surreal quality. Selling pressure continued on the peso, the single most important indicator of confidence, which fell close to its record low against a weak dollar on Friday – a level it touched before the announcement of the $50bn US-led rescue package at the end of January.

Interest rates appear high enough to damage parts of the corporate and banking sector, hnt not sufficient to tempt back flight capital to the country. Late on Friday the government took over a financial gronp, Banpais – rumoured to be in trouble for some time – citing irregularities.

By slowing flows of foreign capital to the region, the Mexican devaluation has provided genuine reasons for weakness in other Latin American financial markets.

"In general reduced inflows of foreign capital, tighter liquidity, higher interest rates and currency weakness have resulted in lower forecasts for growth, higher forecasts for inflation, and improvement in the outlook for current account balances," said Consensus Economics, the London-based consultancy that collates a variety of economic forecasts for the region.

However, Latin America's markets are being driven by something other than economists these days. For example, according to Consensus Economics, average forecasts for 1995 growth in Brazil have risen to 4.6 per cent. Yet the Brazilian market is down 39 per cent in dollar terms since the December 20 devaluation of the Mexican peso.

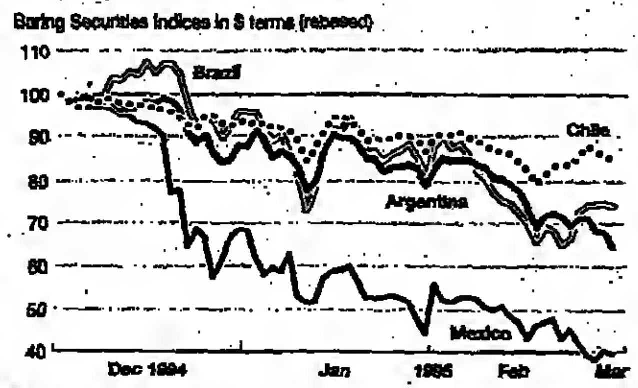
If the market fall is to be rationalised, a possible explanation is a creeping pessimism about the likelihood of success of the government's anti-inflation programme, given the slow pace with which the government has set about its reform agenda.

Until further measures are taken, the anti-inflation plan comprises a few temporary fiscal measures and an exchange rate anchor, which the Mexican case has shown to be an unreliable prop for policy.

Most explanations for the fall in Brazil and elsewhere (Argentina's weakness was on Friday morning spreading into the Chilean market, which like Colombia's and Peru's has escaped most of the Tequila Effect) seems to be a movement out of the region's markets by non-specialist institutional investors.

Yet the battle for Latin America is these days taking place in Argentina, last week described by Bear Stearns, the New York broker, as being in the teeth of a gale.

Baring Securities indices in $ terms (rebased)



Source: Datastream

The outflows continued despite an announcement of a $3.3bn fiscal adjustment, in spending cuts and tax revenue increases. The stock market – whose main Merval index is down about 47 per cent since the Mexican devaluation – is now at levels which existed prior to the introduction four years ago of the convertibility plan of economy minister Domingo Cavallo.

That plan fixed the Argentine currency by law against the dollar, and forbade the central bank to print pesos except when backed by dollars in its reserves.

Convertibility has been spectacularly successful in bringing down inflation, which fell to 3.8 per cent last year, but now it is facing its severest test. According to Mr Ian Campbell of the Economist Intelligence Unit, Mexico's problems mean there are two scenarios – bad and terrible.

"At best, it will be expensive for Argentina to raise finance, at worst, simply impossible to do so. A falling stock market suggests there will be net portfolio capital outflows, implying further falls in reserves, a tightening of liquidity, higher interest rates, problems for the banking sector, and slower growth."

But, he goes on: "This is the soft landing. If financing cannot be obtained, the exchange rate system will become untenable. The dangers are then very grave. A collapse of the currency, and even default, are the ugly possibilities."

With such apocalyptic forecasts around, it is not surprising that some people are hedging their bets and moving out of pesos. But every peso that is switched into dollars squeezes the monetary base and pushes interest rates higher. The virtuous circle that has buoyed the Argentine economy for so long with capital inflows, has become a vicious one.

With a presidential election on May 14, and the popularity of President Menem tied inextricably to convertibility, he and Domingo Cavallo have vowed to defend convertibility to the last.

They say they will completely dollarise the economy rather than devalue, because such is inflationary psychology in Argentina that devaluation would merely trigger galloping inflation. Dollarisation is not as simple as it sounds, and would almost certainly provoke recession, but unless confidence changes soon, something will have to give.

"This is being driven much more by emotional than rational reasons," says Mr Enrique Klix, of Stephen Rose, the London hroker. "The market is acting as if four years of economic adjustment and structural reforms have meant nothing."

Against this kind of backdrop, there were few bulls around the Latin American markets last week. However, we did manage to track down one investor who describes himself as cautiously positive: Mr Arnab Banerji, the chief investment officer of Foreign and Colonial Emerging Markets in London.

He says the Argentine market is in a classic overshooting phase, in which sentiment is far more negative than is warranted by the underlying fundamentals. He points out that the Argentine market has collapsed on very low volumes.

Second, the factor that triggered with a lag the current market collapse – the increases in US interest rates which began last February – may soon disappear. US interest rates may be at or near their peak, he suggests.

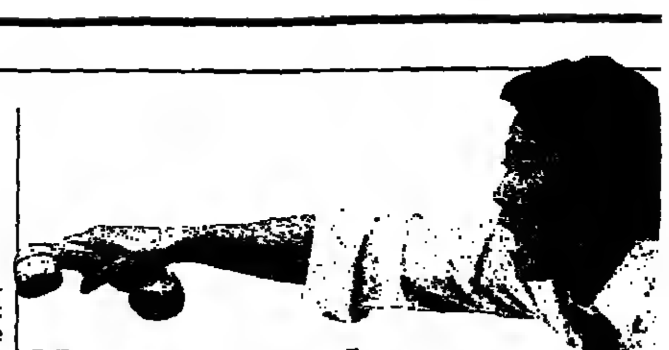
While dollar weakness on Friday was pushing US long-term rates higher, once a turn is perceived, the reaction in Latin America, at least outside Mexico, could be powerful.

Mr Banerji says Asian markets, where sentiment is less negative, are already reacting to the idea that US interest rates are peaking. Hong Kong – which like Argentina suffered a 45 per cent fall, though over a longer period – and Malaysia, have already moved higher, he points out.

Mr Banerji is putting his money where his mouth is. On Friday, he said he was buying Argentine shares for his personal account, reckoning the rally could be reminiscent of 1987 when Argentine assets were also hugely oversold. Provided convertibility holds, the worst could be over by the end of March, he says.

Many investment institutions are approaching the quarter's end with lots of cash, which they may want to find a bome for.

The buyers cannot come back soon enough for Mr Menem and Mr Cavallo. For them, as a colleague remarked last week, it's a case of Buy, Buy or Bye Bye.



News round-up

■ Luxembourg

Cedel, the clearing and settlement bank, plans to establish links with Argentina, Mexico and Uruguay within the next two months.

Cedel said it would operate in those markets through local depository banks.

In Mexico and Argentina, Citibank will act in this capacity and in Uruguay it will be the First National Bank of Boston, part of Bank of Boston.

■ Poland

The central bank is to widen the range in which it quotes its foreign exchange rates for domestic commercial banks, in a preparatory move ahead of floating the zloty.

From Monday the range will increase to 2 per cent below and above the bank's average rate based on a Frankfurt fixing from the day before. The the margin had been 0.5 per cent above and below the everage, exposing the central bank to arbitrage from commercial banks.

■ Sri Lanka

The government is to start its privatisation programme next month with the sale of state owned stakes in a bank, an investment company and a drinks group.

The state has a 15 per cent stake in the National Development Bank, which was partly privatised in 1993.

There is also a plan to sell shares in some 23 state-owned plantations.

■ Moldova

Moldova has so far sold off 700 state-run enterprises for privatisation vouchers, almost half of the 1,555 companies proposed for sell-offs.

The post-voucher privatisation programme is expected to be adopted by parliament in the coming few weeks.

Vouchers were distributed to 3.5m people in mid-1994. The former Soviet republic has as yet no developed over-the-counter share markets, but the stock exchange is due to receive computers this month to enable share trading to begin.

● *Edited by John Pitt. Further coverage of emerging markets appears daily on the World Stock Markets page.*

Baring Securities emerging markets indices

Index	3/3/95	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (301)	128.68	-5.27	-3.94	-13.94	-9.78	-29.35	-18.57
Latin America							
Argentina (20)	58.82	-11.09	-15.84	-23.89	-28.85	-27.19	-31.58
Brazil (21)	148.53	-10.88	-6.823	-41.85	-21.98	-60.84	-29.06
Chile (12)	184.01	-11.04	-5.66	-21.47	-10.45	-27.55	-13.02
Mexico (25)	55.22	-5.79	-9.49	-19.24	-25.84	-42.41	-43.44
Peru(16)	646.30	-30.03	-4.44	-63.49	-8.94	-202.37	-23.85
Latin America (94)	94.54	-8.82	-8.54	-26.61	-21.96	-44.23	-31.87
Europe							
Greece (16)	86.82	+0.90	+1.05	+3.53	+4.24	-0.07	-0.08
Portugal (18)	121.60	+3.20	+2.70	+6.46	+5.61	+5.33	+4.58
Turkey (21)	77.58	+0.87	+1.13	+9.47	+13.92	+1.45	+1.91
Europe (55)	99.93	+1.75	+1.78	+6.40	+6.84	+2.23	+2.28
Asia							
Indonesia (26)	130.81	-2.54	-1.90	+3.60	+2.83	-2.88	-2.15
Korea (23)	127.22	+4.37	+3.58	+1.61	+1.28	-12.68	-9.05
Malaysia (23)	216.16	+2.83	+1.23	+11.21	+5.47	+5.30	+2.51
Pakistan (11)	90.64	-0.92	-1.00	+2.26	+2.56	-15.56	-14.65
Philippines (12)	241.90	-10.66	-4.22	-11.53	-4.55	-40.23	-14.26
Thailand (25)	239.59	-4.62	-1.89	+0.95	+0.40	-12.06	-4.79
Taiwan (32)	168.20	-0.41	-0.24	+5.01	+3.07	-15.95	-8.66
Asia (152)	201.49	-0.19	-0.09	+4.93	+2.51	-9.13	-4.34

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

CURRENCIES

Philip Gawith

Markets to focus on dollar

D-Mark strength, dollar weakness, tension in the exchange rate mechanism, ineffactnal central hank support.

Currency markets have been here before. Indeed, every week that goes by makes 1995 look more and more like the volatile years of 1992-93, and less like the fairly quiet year that was 1994.

The pressures that had been building for some weeks reached a climax last week when central banks were forced to intervene to support the dollar.

The starting point for markets this week will be the central banks' conspicuous lack of success in arresting the dollar's fall. It reached new lowe against the yen and the Swiss franc, and few would bet against it re-testing the historic low against the D-Mark of DM1.3855.

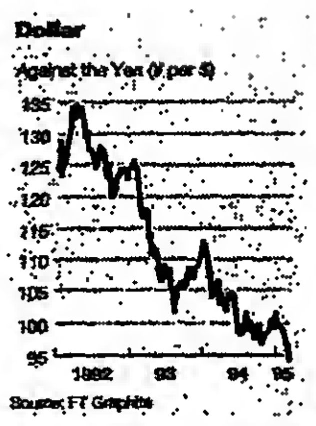
While many believe the D-Mark has overshot any notions of fair value, the portents for a change in sentiment are not good. In terms of monetary policy, there is no expectation that the Bundesbank will ease policy to help the dollar.

As for the US, the Federal Open Markets Committee, which sets Fed policy, will not be meeting until March 28. The Bank of Japan may continue supporting the dollar against the yen, but a cut in interest rates seems unlikely.

Within Europe, there is also little reason to believe that the political uncertainty which has affected Italy, Spain, France and Britain, will disappear quickly. The D-Mark will thus continue to profit from its safe haven status.

The lira and the peseta are both likely to be in the spotlight this week. The vote on the mini-budget will focus attention on Italy, while it remains to be seen whether the outcome of yesterday's European Union monetary committee meeting in Brussels will give the peseta respite from political troubles and bad economic news.

The key statistical release will be the US jobs report, which markets will scan for confirmation that the US economy is headed for a "soft landing".



Source: FT Graphite

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, March 3, 1995. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	5626.37	3462.81	2416.72	3676.58
Albania	(Lek)	163.268	100.484	70.1284	106.661
Algeria	(Dinar)	69.1309	42.5472	29.694	45.1626
Andorra	(Fr Franc)	8.1948	5.0435	3.5199	5.3536
	(Sp Peseta)	205.856	126.696	88.4223	134.485
Angola	(New Kwanza)	682332.5	573914	400469	609068
Antigua	(E Carr $)	4.3867	2.6998	1.8842	2.8656
Argentina	(Peso)	1.6250	1.0001	0.6979	1.0616
Armenia	(Dram)	654.736o	402.964	281.232	427.736
Aruba	(Florin)	2.9082	1.7898	1.2491	1.8999
Australia	(Aus $)	2.1979	1.3527	0.944	1.4358
Austria	(Schilling)	16.4197	10.1056	7.0528	10.7269
Azerbaijan	(Manat)	7086.60o	4367.06	3047.81	4635.53
Azores	(Port Escudo)	241.942	148.908	103.925	158.06
Bahamas	(Bahama $)	1.6248	1	0.6979	1.0614
Bahrain	(Dinar)	0.6126	0.377	0.2631	0.4002
Balearic Is	(Sp Peseta)	205.856	126.696	88.4223	134.485
Bangladesh	(Taka)	64.6651	39.7986	27.7769	42.2454
Barbados	(Barb $)	3.2676	2.0112	1.4036	2.1348
Belarus	(Rouble)	18980.2o	11669.3	8144.07	12386.6
Belgium	(Belg Fr)	47.9670	29.534	20.612	31.3497
Belize	(B $)	3.2494	1.9998	1.3957	2.1228
Benin	(CFA Fr)	819.480	504.357	351.995	535.363
Bermuda	(Bermudian $)	1.6248	1	0.6979	1.0614
Bhutan	(Ngultrum)	51.4721	31.678	22.109	33.6265
Bolivia	(Boliviano)	7.6932	4.7348	3.3044	5.0259
Botswana	(Pula)	4.3678	2.6882	1.8761	2.8534
Brazil	(Real)	1.3849	0.8585	0.5991	0.9112
Brunei	(Brunei $)	2.3493	1.4459	1.0091	1.5347
Bulgaria	(Lev)	107.128	65.9336	46.0158	69.9869
Burkina Faso	(CFA Fr)	819.480	504.357	351.995	535.363
Burma	(Kyat)	9.1508	5.6318	3.9305	5.978
Burundi	(Burundi Fr)	391.661	241.052	168.232	255.871
Cambodia	(Riel)	4204.83	2624.83	1831.89	2786.2
Cameroon	(CFA Fr)	819.480	504.357	351.995	535.363
Canada	(Canadian $)	2.2759	1.4007	0.9775	1.4868
Canary Is	(Sp Peseta)	205.855	126.696	88.4223	134.485
Cp. Verde	(CV Escudo)	134.801	82.9646	57.9017	88.0649
Cayman Is	(CI $)	1.3458	0.8281	0.5779	0.879
Cent.Afr. Rep	(CFA Fr)	819.480	504.357	351.995	535.363
Chad	(CFA Fr)	819.480	504.357	351.995	535.363
Chile	(Chilean Peso)	679.552	418.237	291.891	443.949
China	(Yuan)	13.6957	8.4291	5.8827	8.9473
Colombia	(Col Peso)	1387.12	859.872	600.112	912.738
CIS $	(Rouble)	1.06440	0.656	0.4571	0.6863
		7463.65m	4593.7	3205.96	4876.1
Comoros	(Fr)	620.959	382.176	266.724	405.67
Congo (Brazz)	(CFA Fr)	819.480	504.357	351.995	535.363
Costa Rica	(Colon)	267.417	164.585	114.865	174.702
Côte d'Ivoire	(CFA Fr)	819.480	504.357	351.995	535.363
Croatia	(Kuna)	8.6005	5.2932	3.6942	3.6186
Cuba	(Cuban Peso)	1.6247	0.9999	0.6979	1.0614
Cyprus	(Cyprus £)	0.7360	0.4529	3.6157	0.4601
Czech Rep.	(Koruna)	43.4287	26.7292	18.6545	28.3724
Denmark	(Danish Krone)	9.2531	5.6949	3.9745	6.045
Djibouti Rep	(Djib Fr)	288.741	177.709	124.024	188.635
Dominica	(E Carib $)	4.3867	2.6998	1.8842	2.8658
Dominican Rep	(D Peso)	22.3558	13.7591	9.6025	14.6049
Ecuador	(Sucre)	3919.580	2412.35	1683.6	2560.65
		3874.90s	2384.85	1664.4	2531.46
Egypt	(Egyptian £)	5.5357	3.4057	2.3769	3.6151
El Salvador	(Colon)	14.2161	8.7494	6.1063	9.2873
Equat'l Guinea	(CFA Fr)	819.480	504.357	351.995	535.363
Estonia	(Kroon)	18.8091	11.5828	8.0807	12.3055
Ethiopia	(Ethiopian Birr)	8.8059	5.4196	3.7824	5.7528
Falkland Is	(Falk £)	1	0.6154	0.4295	0.6532
Faroe Is	(Danish Krone)	9.2531	5.6949	3.9745	6.045
Fiji Is	(Fiji $)	2.3033	1.4175	0.9893	1.5047
Finland	(Markka)	7.1251	4.3852	3.0604	4.6547
France	(Fr)	8.1948	5.0436	3.5199	5.3536
Fr. Cty/Africa	(CFA Fr)	819.480	504.357	351.995	535.363
Fr. Guiana	(Local Fr)	8.1948	5.0436	3.5199	5.3536
Fr. Pacific Is	(CFP Fr)	150.535	92.6489	64.66	98.3438
Gabon	(CFA Fr)	819.480	504.357	351.995	535.363

		£ STG	US $	D-MARK	YEN (X 100)
Gambia	(Dalasi)	15.8002	9.7243	6.7867	10.3222
Germany	(D-Mark)	2.3251	1.4328	1	1.5208
Ghana	(Cedi)	1741.67	1071.85	748.108	1137.83
Gibraltar	(Gib £)	1	0.6154	0.4295	0.6532
Greece	(Drachma)	372.962	229.543	160.2	243.635
Greenland	(Danish Krone)	9.2531	[illegible]	[illegible]	[illegible]
Grenada	(E Carr $)	4.3867	[illegible]	[illegible]	[illegible]
Guadeloupe	(Local Fr)	8.1948	[illegible]	[illegible]	[illegible]
Guam	(US $)	1.6248	[illegible]	[illegible]	[illegible]
Guatemala	(Quetzal)	9.2630	[illegible]	[illegible]	[illegible]
Guinea	(Fr)	1648.32	[illegible]	[illegible]	[illegible]
Guinea-Bissau	(Peso)	24969.9	[illegible]	[illegible]	[illegible]
Guyana	(Guyanese $)	231.519	[illegible]	[illegible]	[illegible]
Haiti	(Gourde)	30.8982	[illegible]	[illegible]	[illegible]
Honduras	(Lempira)	14.7685	[illegible]	[illegible]	[illegible]
Hong Kong	(HK $)	12.5631	[illegible]	[illegible]	[illegible]
Hungary	(Forint)	181.208	[illegible]	[illegible]	[illegible]
Iceland	(Icelandic Krona)	108.775	[illegible]	[illegible]	[illegible]
India	(Indian Rupee)	51.4721	[illegible]	[illegible]	[illegible]
Indonesia	(Rupiah)	3598.82	[illegible]	[illegible]	[illegible]
Iran	(Rial)	2841.92	[illegible]	[illegible]	[illegible]
Iraq	(Iraqi Dinar)	0.9748	[illegible]	[illegible]	[illegible]
Irish Rep	(Punt)	1.0076	[illegible]	[illegible]	[illegible]
Israel	(Shekel)	4.8193	[illegible]	[illegible]	[illegible]
Italy	(Lira)	2681.40	[illegible]	[illegible]	[illegible]
Jamaica	(Jamaican $)	52.1627	[illegible]	[illegible]	[illegible]
Japan	(Yen)	153.076	[illegible]	[illegible]	[illegible]
Jordan	(Jordanian Dinar)	1.1276	[illegible]	[illegible]	[illegible]
Kenya	(Kenya Shilling)	72.3233	[illegible]	[illegible]	[illegible]
Kiribati	(Australian $)	2.1979	[illegible]	[illegible]	[illegible]
Korea North	(Won)	3.4661	[illegible]	[illegible]	[illegible]
Korea South	(Won)	1284.45	[illegible]	[illegible]	[illegible]
Kuwait	(Kuwaiti Dinar)	0.4834	[illegible]	[illegible]	[illegible]
Laos	(New Kip)	1164.40	[illegible]	[illegible]	[illegible]
Latvia	(Lats)	0.8596	[illegible]	[illegible]	[illegible]
Lebanon	(Lebanese £)	2582.15	[illegible]	[illegible]	[illegible]
Lesotho	(Maluti)	5.8016	[illegible]	[illegible]	[illegible]
Liberia	(Liberian $)	1.6248	[illegible]	[illegible]	[illegible]
Libya	(Libyan Dinar)	0.5843	[illegible]	[illegible]	[illegible]
Liechtenstein	(Swiss Fr)	1.9809	[illegible]	[illegible]	[illegible]
Lithuania	(Litas)	6.4993	[illegible]	[illegible]	[illegible]
Luxembourg	(Lux Fr)	47.9670	[illegible]	[illegible]	[illegible]
Macao	(Pataca)	12.9776	[illegible]	[illegible]	[illegible]
Madagascar	(MG Fr)	6092.61	[illegible]	[illegible]	[illegible]
Madeira	(Port Escudo)	241.942	[illegible]	[illegible]	[illegible]
Malawi	(Kwacha)	24.9432	[illegible]	[illegible]	[illegible]
Malaysia	(Ringgit)	4.1435	[illegible]	[illegible]	[illegible]
Maldive Is	(Rufiya)	18.1327	[illegible]	[illegible]	[illegible]
Mali Rep	(CFA Fr)	819.480	[illegible]	[illegible]	[illegible]
Malta	(Maltese Lira)	0.5770	[illegible]	[illegible]	[illegible]
Martinique	(Local Fr)	8.1948	[illegible]	[illegible]	[illegible]
Mauritania	(Ouguiya)	208.582	[illegible]	[illegible]	[illegible]
Mauritius	(Maur Rupee)	28.3022	[illegible]	[illegible]	[illegible]
Mexico	(Mexican Peso)	9.8054	[illegible]	[illegible]	[illegible]
Miquelon	(Local Fr)	8.1948	[illegible]	[illegible]	[illegible]
Monaco	(French Fr)	8.1948	[illegible]	[illegible]	[illegible]
Mongolia	(Tugrik)	668.310	[illegible]	[illegible]	[illegible]
Montserrat	(E Carr $)	4.3867	[illegible]	[illegible]	[illegible]
Morocco	(Dirham)	13.8148	[illegible]	[illegible]	[illegible]
Mozambique	(Metical)	11534.5	[illegible]	[illegible]	[illegible]
Namibia	(S A Rand)	5.8016	[illegible]	[illegible]	[illegible]
Nauru Is	(Australian $)	2.1979	[illegible]	[illegible]	[illegible]
Nepal	(Nepalese Rupee)	80.2600	[illegible]	[illegible]	[illegible]
Netherlands	(Guilder)	2.6142	[illegible]	[illegible]	[illegible]
N'nd Antilles	(A/Guilder)	2.3082	[illegible]	[illegible]	[illegible]
New Zealand	(NZ $)	2.5457	[illegible]	[illegible]	[illegible]
Nicaragua	(Gold Cordoba)	11.7752	[illegible]	[illegible]	[illegible]
Niger Rep	(CFA Fr)	819.480	[illegible]	[illegible]	[illegible]
Nigeria	(Naira)	35.7445o	[illegible]	[illegible]	[illegible]
	(Naira)	105.612m	[illegible]	[illegible]	[illegible]
Norway	(Nor. Krone)	10.2953	[illegible]	[illegible]	[illegible]
Oman	(Rial Omani)	0.6256	[illegible]	[illegible]	[illegible]

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)	50.1221	30.8481	21.5291	32.7445
Panama	(Balboa)	1.6248	1	0.6979	1.0614
Papua New Guinea	(Kina)	1.3050	1.1647	0.8288	1.2675
Paraguay	(Guarani)	3176.26	1954.87	1364.32	2076.05
Peru	(New Sol)	3.6370	2.2384	1.5623	2.378

Special Drawing Rights March 3 United Kingdom £1.06181 United States $0.666311 Germany DM0.457245 Japan Y0.592190 European Currency Unit Rates March 3 United Kingdom £0.802754 United States $1.29187 Germany DM1.87257 Japan Y122.824

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (f) Financial rate; (h) Exports; (i) Non commercial rate; (l) Parallel rate; (m) Market rate; (n) Business rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate; (u) Currencies fixed against the US Dollar; (v) Floating rate. CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4360/5.

Friday, March 3, 1995

WORLD BOND MARKETS: This Week

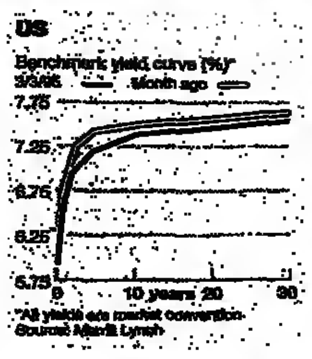
NEW YORK — Richard Waters

There will be only one thing on bond investors' minds this morning: the malaise of the dollar. While stocks rebounded on Friday afternoon from their currency-induced slide, fixed income prices failed to rise. The yield on the long bond ended the week at 7.53 per cent, a retreat from modest gains early in the week, while the two-year bond yield closed up at 6.87 per cent.

The market's dip came despite a batch of economic data generally positive for the bond market. As long as the currency remains flat on its back – which both discourages foreign investors and increases the cost of imports, threatening an upturn in inflation - this week's data seems likely to have little better chance of lifting prices.

The most significant release comes on Friday, with the February employment report. After a weak month in January, when the unemployment rate climbed to 5.7 per cent, renewed hiring in February is generally expected to have pushed the rate back down to 5.6 per cent. The most optimistic forecasts are that it will have fallen back to December's 5.4 per cent.

Non-farm payrolls, which rose by only 134,000 in January, are expected to have grown last month by 232,000. This rebound need not unnerve the bond market, though: the five-week reporting period, longer than usual, will account for some of the growth.



LONDON — Philip Coggan

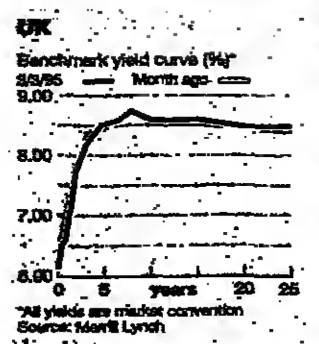
Gilts face a tough week in view of the weakness in the dollar and the US Treasury bond market that dominated the markets last Friday.

Domestic factors are expected to have little influence. It is thought unlikely that Wednesday's meeting between Mr Kenneth Clarke, chancellor of the exchequer and Mr Eddie George, governor of the Bank of England, will result in a rise in interest rates. Industrial production numbers for January, released the same day, will be scanned for signs of a slowdown in the UK economy.

With success in last week's European vote, the government's political worries may fade into the background for a while, giving sterling some breathing space. Gilts, however, will find it hard to escape the influence of the US market.

Ms Katy Peters, senior economist at Daiwa Europe, says the market became overly optimistic about the prospects for US interest rates.

Mr Julian Callow of Kleinwort Benson says the US bond market's recent rally became over-extended, as the yield on the 30-year Treasury fell below 7.5 per cent. Although gilts may be able to narrow the spread against US bonds, that will not offer much protection against a sharp T-bond decline as the markets digest Friday's failed central bank intervention.



FRANKFURT — Katharine Campbell

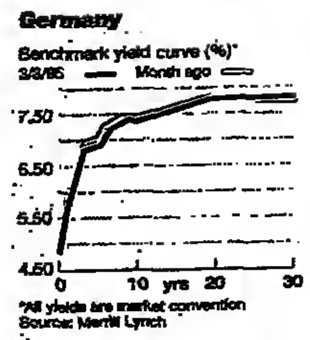
While the D-Mark remains strong against European currencies as well as the dollar, German government securities are enjoying no such safe-haven effect.

On Friday, bunds were pulled down both by the dollar's woes and a weak US Treasury market, and Frankfurt traders said the currency's strength had now become a significant deterrent to investor participation from outside Germany.

Developments on the foreign exchanges will continue to dominate price movements this week. The principal domestic focus, meanwhile, is a possible resolution of the engineering workers strike, with the union, IG Metall, meeting employers for the next round of talks in Munich today.

The Bavarian employers indicated over the weekend that a firm offer would be on the table. A settlement anywhere below 3.5 per cent would be seen as positive for bunds, analysts reckoned, whereas 4 per cent or more would be interpreted as distinctly unfavourable for inflationary prospects, and prices would be marked down.

While the Bundesbank made no change to official rates at last Thursday's council meeting, the market is concerned that the German central bank may be forced to bring forward its first policy tightening moves depending on the outcome of the rest of the wage round.



TOKYO — Emiko Terazono

The yen's appreciation against the dollar, weak share prices, and lingering fears over the health of Japan's financial system are expected to continue to support bond prices this week.

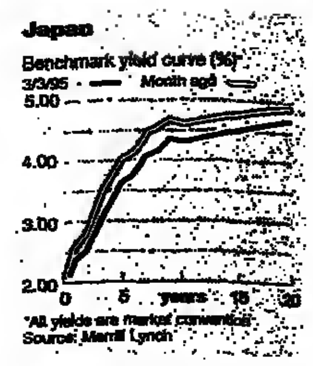
The currency's rise to record highs last week triggered concern over the negative effect on the still fragile economic and corporate earnings recovery.

Although the Bank of Japan's quarterly survey of business sentiment released last week indicated an improved economic outlook, a higher yen could undermine business confidence, forcing the central bank to ease short-term interest rates.

A weaker stock market will also heighten investors' hopes of lower interest rates. Although share prices have already discounted the Barings crisis, the Nikkei is expected to remain volatile on technical trading ahead of Friday's settlement for March futures.

Further developments on the bail-out of two ailing credit unions will also be a point of focus. The withdrawal of deposits amid a prolonged political debate has given rise to fears over the stability of Japan's financial system.

On the other hand, supply concerns remain, and a further decline in stock prices could prompt profit-taking on the bond market by investors lacking other alternatives to boost their earnings ahead of the March book closing.



Canadian government bonds

Budget cheers investors

Mr Paul Martin, Canada's finance minister, received a warm welcome from investors in the country's government bond market when he presented his second budget last week.

The 10-year yield spread over US Treasuries, which rose sharply last year and was volatile ahead of the budget, fell back to 130 basis points, with the yield on the 10-year benchmark falling about 20 basis points to 8.5 per cent. Since the budget the yield spread has stabilised at 140 basis points.

Bond investors liked Mr Martin's forecast of a budget deficit by 1996–97 of C$24.3bn, or 3 per cent of gross domestic product, down from C$37.9bn in 1994–95. Three per cent is the figure believed to be crucial for stabilising and then beginning to reduce the country's stock of debt, which currently stands at about 73 per cent of GDP.

Investors were also comforted by the budget's conservative interest rate assumptions. Mr Martin budgeted for a rise in three-month T-bill rates to a 1995 average of 8.5 per cent from the current 8.1 per cent; he allowed for a sharp rise in 10-year bond yield to an average of 9.7 per cent this year, well up from the current 8.8 per cent.

However, later last week bond prices fell on rumours that Standard & Poor's, the credit rating agency, was considering downgrading Canadian debt. S&P later said it was revising its outlook on Canada's foreign currency debt to negative from stable.

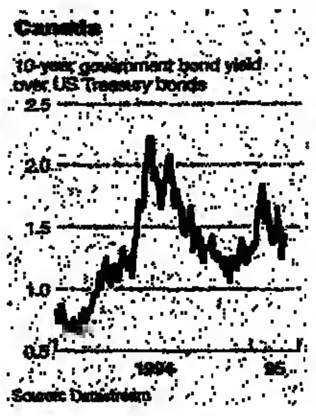
Prices rebounded on news of this decision – which was not an actual downgrade – but it still cast a shadow, given that Moody's, another rating agency, had alrsady announced a review of Canada's position on concern about its medium-term fiscal health.

Concern over the size of Canada's debt and budget deficit and worries that movss towards the separation of Quebec would exacerbate its fiscal problems dogged the Canadian government bond market throughout last year. In June, the 10-year yield spread over US Treasuries jumped to around 220 basis points.

The spread narrowed in the second half of last year before again jumping higher at the turn of the year – by about 50 basis points to 180 basis points – on further fiscal worries.

The government responded with intensive efforts to reassure domestic institutional investors, whose buying, particularly of short-dated bonds, boosted the market and led to a steepening of the yield curve in the run-up to the budget.

Graham Bowley



New Moody's rating scale

Shedding more light on banks' soundness

Moody's Investors Service, the US credit rating agency, is planning to introduce a new rating scale which assesses the financial strength of banks as stand-alone entities, separate from the support they may receive from guarantors, such as central banks or regulators.

Moody's says the aim of the scale, which is intended to complement its sxisting deposit risk and default risk ratings, is to shed more light on banks' intrinsic safety and soundness, but others fear that its effect could be to widen yield spreads and increase borrowing costs for many borrowers, albeit only temporarily.

The agency is assessing 600 banks for which it currently has a bank deposit rating and aims to start publishing financial strength ratings (FSRs) on a country-by-country basis later this year.

Moody's will rate banks on a scale from A (exceptional) to E (very weak). It will consider factors such as "financial fundamentals, franchise value, and business and asset diversification".

It will also take into account "other risk factors in the banks' operating environment such as performance of the economy, the structure and strength of the financial system and the quality of banking regulation and supervision".

Some issuers which receive FSR ratings lower than their equivalent default risk ratings may face higher borrowing costs, but pressure in this area is likely to be temporary.

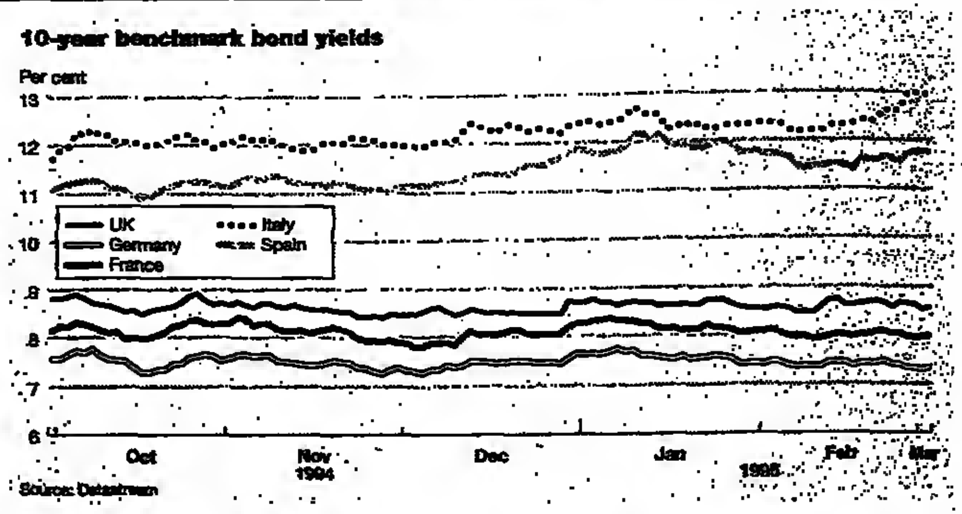
"For highly rated, guaranteed issuers, the damage from lower FSRs should be more to their pride than to their cost of funds," said Mr David Munves, head of credit research at PaineWebber in London.

The German landesbanken, state-sector financing institutions, are perhaps among the banks most vulnerable to the new rating system.

Mr Munves says :"We would not be surprised to see FSR ratings in the C category (equivalent to an A default rating) for some of these Aa and Aaa rated entities".

Graham Bowley

10-year benchmark bond yields



INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.25	1.75	4.50	6.40(1)	8.25	6.75(2)
Overnight	5.88	2.22	4.75	5.87	9.62	4.75
Three month	5.91	2.25	5.00	6.37	10.37	6.65
One year	6.67	2.37	5.57	6.92	11.25	7.65
Five year	7.22	3.70	6.85	7.77	13.04	8.54
Ten year	7.38	4.26	7.39	8.07	13.18	8.83

(1) France Repo rate. (2) UK Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	103-13	102-26	-0-18	103-16	102-15	43,218	174,963
Jun	102-26	102-08	-0-19	102-31	101-28	290,237	197,770
Sep	102-17	101-26	-0-18	102-17	101-16	817	10,048

International bonds

Tunisia able to drive hard a bargain

Small sovereign nations looking to borrow funds on international capital markets may find a valuable lesson in Tunisia's expsrience. By playing investment banks against each other, Tunisia has been been able to drive a hard bargain in international lending markets and lower its borrowing costs.

Last week, Tunisia closed a Y25bn five-year samurai bond issue, the country's second, at a spread of 140 basis points over Libor, amid market criticism that the spread is too tight and Tunisia's opportunistic strategy misguided.

Having successfully graduated from an International Monetary Fund structural adjustment programme, Tunisia last year turned to the international bond markets for financing.

The country has a good story to tell. GDP growth has averaged 5 per cent in the last five years and inflation fell to 4.6 per cent in 1994. External debt of $8bn, three-quarters of which has a long-term maturity, stands at a comfortable 51 per cent of GDP.

Newcomers to international bond markets are usually willing to pay a higher than warranted spread for their first bond issues to ensure the deals' success and create a favourable image with investors.

This strategy, however, does not impress Mr Said M'rabet, head of the Tunisian central bank's international department, who sees no reason why, given Tunisia's sound fundamentals, he should be forced to overpay investors and fill the coffers of investment bankers.

"The European and American banks who came to see us at first told us we could only issue a bond with a maturity of three years, that we would raise no more than $100m and the margin would be 350bp over US Treasuries," he says. "We took count of all this and looked elsewhere."

The samurai market proved more accommodating, thanks to the fierce rivalry among Japan's four big securities houses. Last year, Nikko Securities won the mandate to place Tunisia's first Y30bn samurai bond, with s 10-year maturity and a spread of 170bp over Libor.

The market looked critically at the tightly-priced deal and rumours spread that Nikko was stuck with a sizeable portion of the issue. Nikko says it was able to sell what was left by the end of last year.

"Many Japanese don't know where Tunisia is," says Mr M'rabet, "so to take one year to sell the issue I think is very good." In any event, Mr M'rabet got his money at a reasonabls rate.

There were bumps along the way in this year's issue as wsll. Tunisia first signed a mandate with Daiwa Securities, for a spread reported to be in the neighbourhood of 125bp over Libor. Two weeks later, however, Daiwa told the Tunisian central bank it couldn't sell the whole issue at that spread and attempted to reduce the size.

This is when Nikko stepped in as joint-lead, marking the first time two Japanese securities houses had co-led a samurai deal. Daiwa's explanation, however, is that it distributed the pie according to demand and Nikko happened to have plenty of customers willing to buy Tunisian bonds.

Both Nikko and Daiwa say the issus has been successfully placed at 140bp, a tight spread for investors but an attractive one for Tunis. "When I hear that the issue was tightly priced, I laugh and it makes me happy," Mr M'rabet says. "What is important to me is to get my money."

Critics of Tunisia's borrowing strategy maintain that a small emerging market country with a good but unknown story should be willing to pay a premium on first issues because it would lead to tighter spreads and larger borrowings in subsequent deals.

As an example, they point to Lebanon's oversubscribed $400m Eurobond issne, completed last year. The bonds were priced at 325bp over US Treasuries but are now trading at a spread of 254bp. This is what would be used as a benchmark if Lebanon were to issue another Eurobond today.

Mr M'rabet dismisses comparisons with Lebanon, saying the country, just emerging from 16 years of civil war, has a tarnished image. Nikko officials, meanwhile, say the samurai market is illiquid, which mitigates the need to set a low benchmark. Because the bonds don't really trade, their price is hard to assess after issue date.

So far at least, there is little evidence that Tunisia's aggressive strategy is hurting – Western and Japanese investment banks are lining up outside Mr M'rabet's office to convince him to try his luck on the Eurobond market. Tunisia's central bank is looking to raise another $150m this year and may need up to $500m a year in the coming years.

With this in mind, he has commissioned two different investment banks to solicit ratings from Standard & Poor's and Moody's, both of which may be less generous than the rating of BBB+ Tunisia received from JBRI of Japan.

Still, Mr M'rabet says Tunisia's fortunes are looking up. European and American banks are already talking about a $150m Eurobond deal with a five-year maturity and a spread of no more than 250bp over US Treasuries – a good deal better than was offered two years ago.

If the US agencies' ratings prove unsatisfactory to the Tunisians, Mr M'rabet says he will again look elsewhere for funds, and may go back to the Japanese market. "We taks money where we can find it," he says.

Roula Khalaf

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Autobacs Seven Co.(a)‡Φ	100	Mar.1998	4.125	100.00	-	-	Nomura International
Carlplast‡	150	Nov.1998	(c1)	99.80R	-	-	Swiss Bank Corp.
Korea Intl.Merchant Bank(d)★‡	50	Mar.2000	(d1)	100.00	-	-	KEB International
LTCB of Japan, Tranche A(g)	25	Mar.2005	(g1)	101.50	-	-	LTCB International
LTCB of Japan, Tranche B(h)	30	Mar.2000	8.50	101.50	-	-	LTCB International
YEN							
Republic of Portugal★	70bn	Mar.2002	4.50	100.00R	4.500	-	Daiwa Europe/ IBJ Intl.
Fuji Finance(Cayman)(i)★‡	20bn	Jan.2005	(i1,j)	100.00	-	-	Fuji Intl. Finance
Fuji Finance(Cayman)(k,j)★	10bn	Jan.2005	4.60	100.00	-	-	Fuji Intl. Finance
Total Fin.(Curacao), A(m)★‡	10bn	Jan.2005	(m1,j)	100.00	-	-	Nikko Europe
Total Fin.(Curacao), B(n)★‡	10bn	Jun.2005	(n1,j)	100.00	-	-	Salomon Brothers Intl.
D-MARKS							
Guinness	120	Apr.1998	6.75	101.224	6.290	-	Swiss Bank Corp. Frt.
Republic of Austria	1bn	Apr.2000	6.875	99.9375R	6.890	+9(7%-99)	WestLB
First Austrian Bank	150	Mar.2000	7.00	101.64	6.604	-	Commerzbank
Sudwestdeutsche LB Cp.Mkts.	500	Mar.2000	7.00	99.875R	7.031	+20(7%-99)	Swiss Bank Corp. Frt.
Samsung Electronics Co.	300	Mar.2000	7.50	101.75	7.072	-	Bayerische Landesbank
FRENCH FRANCS							
Usinor Sacilor	1.8bn	Mar.2002	8.50	99.24R	8.649	+60(i)	Société Générale
GECC	1.5bn	Mar.1997	7.25	100.00R	7.250	+10(8½%-97)	Banque Paribas
Catalonia	1.1bn	Mar.2005	8.25	98.815R	8.430	+40(7½%-05)	Société Générale
DSL Bank(f)	1bn	Apr.1997	7.25	99.91R	7.300	+14(8½%-97)	CCF
Depfa Bank(f)	1bn	Apr.1997	7.25	99.74R	7.39	+20(8½%-97)	CCF
SWISS FRANCS							
SKL Corp.(l,j)★Φ	200	Mar.1999	2.00	100.00	-	-	Credit Suisse
ESRA(b,d)★	100	Dec.1999	5.75	101.75	-	-	Merrill Lynch Cap.Mkts.
Philip Morris Companies	200	Apr.1999	5.50	102.50	4.795	-	Credit Suisse
STERLING							
GECC(a)	100	Dec.1996	8.125	99.975R	8.175	+30(10%-96)	Deutsche/ HSBC Mkts.
ITALIAN LIRE							
Sudwestdeutsche LB(f)	150bn	Sep.1997	11.50	100.895	-	-	Paribas Capital Markets
International Finance Corp.	150bn	Apr.1997	11.25	101.125	10.60	-	Paribas/ SBC
Electricité de France	150bn	Apr.1998	11.40	101.205	10.91	-	Paribas/ SBC
CANADIAN DOLLARS							
GE Capital Canada(e)	100	Dec.2000	8.25	99.615R	8.35	+9.3(8½%-00)	ScotiaMcLeod
Bayerische Vereinsbank(a)	100	Dec.2000	8.50	99.42R	8.65	+9(8½%-00)	Wood Gundy
LUXEMBOURG FRANCS							
Cregem International Bank(a)	2.5bn	Dec.2000	7.75	102.55	7.20	-	Cregem Intl. Bank
Kredietbank Luxembourg	2bn	Apr.2002	7.875	102.35	7.432	-	Kredietbank Lux.
Crédit Local de France(a)	2bn	Dec.1998	7.625	102.375	7.017	-	BCEE
GECC	3bn	Apr.2005	8.125	102.75	7.720	-	Crédit Européen
AUSTRALIAN DOLLARS							
Crédit Local de France	100	Apr.2005	10.25	101.77	9.962	-	Hambros Bank
DRACHMAS							
European Investment Bank‡	20bn	Mar.2000	(f)	100.00	-	-	Bayer.Vereins., Athens

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. Φwith equity warrants. ★Unlisted. ‡Semi-annual coupon and yield. R: fixed re-offer price. a) Denoms: $5,000 + 1 wrt. Ex price: Y8,723. FX: 98.10Y/$. b) Denoms: SFr50,000 +50 wts. Ex price: Y754. FX: 79.07Y/SFr. Redbc: 7/2/97. c) Fungible with $150m. c1) 3-mth Libor +[illegible], (1st coupon: [illegible]). d) Puttable in 3 yrs at par. d1) 6-mth Libor +40bp. e) European Sovereign Repackaged Assets. f) 3-mth Athibor -40bp, max 30%. g) Callable on 17/3/98 at par. g1) 6-mth Libor +75bp for 1st 3 yrs and [illegible] thereafter. h) Callable on 17/3/97 at par. i) Over interpolated yield. j) Callable on 15/6/00 at par. i1) 3-mth Libor +15bp to 15/6/00 and +40bp thereafter. k) Callable on 22/6/00 at par. l) Long 1st coupon. m) Callable on coupon dates from 15/6/00 at par. m1) 6-mth Libor +15bp to 15/6/00 and +40bp thereafter. n) Short 1st coupon. Note: Yields are calculated on ISMA basis.

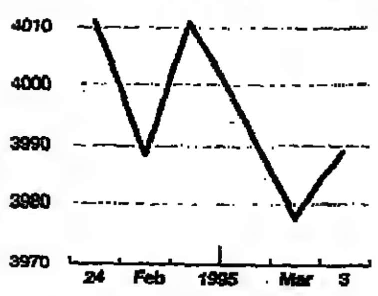
EQUITY MARKETS: This Week

NEW YORK

Lisa Bransten

Investors to keep wary eye on the dollar

Dow Jones Industrial Average



Source: FT Graphite

Friday's stock market hardly seemed to notice as the dollar hit a record low against the Japanese yen, but investors will probably pay closer attention to the "greenback" this week, especially if it continues to weigh heavily on the bond market.

Of particular concern is the notion that the Federal Reserve might raise interest rates again in order to shore up the value of the dollar.

Blue chip shares spent much of last week hovering near the 4,000 level after rallying on weak economic news that suggested the Fed had finished raising rates. A change of heart by the market could trigger a decline in share prices.

There will certainly be some uncertainty on the market this week as investors wait fcr February's employment data, due on Friday. A month ago the market soared after the Labor Department announced unemployment had risen to 5.7 per cent in January from 5.4 per cent in December because the data suggested the economy had begun to slow.

Economists at Chemical Securities, however, estimate that last month's figure will fall to 5.5 per cent. That could cause concern as it might suggest the Fed will add one more interest rate rise to the seven already made since February last year.

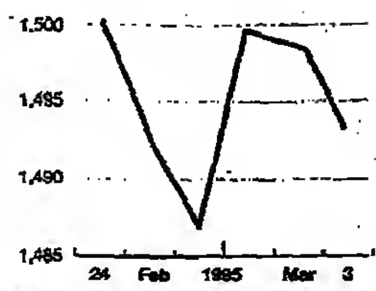
Also important will be Wednesday's productivity figures. Some speculate that inflationary pressures are not as dangerous as they seem because of productivity gains in the US economy.

LONDON

Terry Byland

Results from blue chips set to dominate

FT-SE-A All-Share Index



Source: FT Graphite

A week is a long time in the stock market these days. London survived last week in better shape than seemed likely last Monday morning and can now return to more normal business, if another attack on the dollar can be so described.

This week ought to be dominated by the flow of December year-end results from British industry, headed by BAT Industries, Barclays Bank, RTZ and a host of other blue chip names. Analysts remain optimistic that "UK plc will hit 1994 forecasts", as NatWest Securities has it.

Last week's reaction to results from BAe, Abbey National and Sun Alliance suggested that the market has done too accurate a job of predicting dividend and profit increases.

Strauss Turnbull believes that, with base rates expected to rise further, dividend growth will assume an even more important role.

Derivative Securities, the market technicians, point out that the Footsie did begin to establish an important support line last week, with 3,020 an area of "primary resistance" and 2,994 or even 2,966 offering themselves as further lines of defence. Derivative Securities recommends that long-term equity investors should be buyers of the market below 3,050.

There is more reason to worry about the FT-SE 250 Index, which has been hit by the flight to quality prompted by the Barings collapse. No sign of stabilisation here.

OTHER MARKETS

JOHANNESBURG

In spite of the continued poor performance of the gold price, the overall mood at the Johannesburg Stock Exchange is relatively upbeat, given the flood of good corporate results in recent weeks, *writes Mark Suzman in Johannesburg.*

Brokers will be hoping that the trend continues this week when three local heavyweights, Liberty Life, the life assurer, diamond giant De Beers and the Anglo American Industrial Company (Amic) all announce their most recent figures.

De Beers, traditionally the bluest of blue chips on the JSE, is the question mark. Analysts and shareholders will be watching closely to see if the improvement in growth in the OECD countries last year, traditionally the company's most important markets, will be reflected in sales.

Few such doubts are entertained on Liberty, which under the guiding hand of chairman Mr Donnie Gordon has become the stock that can do no wrong and for many market watchers has taken De Beers' place as the bellwether of the local market. Analysts expect it to report another solid year of earnings growth based on improvement in both international and domestic business.

Meanwhile, Amic is also expected to report healthy results, and a substantial increase in attributable earnings, given the strong improvement in the underlying economy and good performances from most major subsidiaries.

If all goes well, the market will be hoping that shareholder confidence by the end of the week will be more than sufficient to offset concerns about the next week's budget, which is due to be announced on March 15.

ZURICH

Full-year figures from ABB Asea Brown Boveri, due on Wednesday, may be sufficient to distract investors from a depressed banking sector, which kept the market in the doldrums last week. Analysts are forecasting 1994 net profit of about $670m from the Swedish-Swiss electrical engineering group, but much will depend on restructuring charges. In 1993, the group managed only $68m, a figure heavily depressed by restructuring costs, compared with $505m the previous year.

"The crucial element of the report will be whether we see a continuation during the final quarter of the very strong climb in orders reported during the first nine months," says Mr Frederick Hasslauer at Bank Sal Oppenheim in Zurich.

PARIS

The French equity market has been dogged over the past weeks by the weakness of the franc against the D-Mark and a series of generally disappointing 1994 company results, *writes John Pitt.*

Of over-riding concern to investors, however, are the recent opinion polls which have shown that prime minister Mr Edouard Balladur's strong lead in the forthcoming presidential elections has fallen sharply.

Once seen as a foregone conclusion, the run-up to the first round of polling on April 23, has now become unpredictable, with Mr Jacques Chirac, the mayor of Paris, capturing new support with every passing day.

Mr James Cornish, a strategist at NatWest Securities in London, says that a major worry is which of the presidential candidates will, when elected, have the political muscle to tackle the budget deficit.

TOKYO

Investors seem to have digested much of the negative sentiment stemming from the Barings crisis, as most of the bank's futures positions on the Simex and Osaka exchanges were liquidated last week, *writes Emiko Terazono.*

Most of the remaining arbitrage positions against March futures are expected to be rolled over into positions against the June contract due to investors looking to receive the annual year-end dividends. However, as the settlement of March futures contracts on Friday approaches, technical trading is expected to create some volatility.

The focus of the week will be the parliamentary testimony given on Thursday by the two former presidents of Tokyo Kyowa Shinyo Kumiai and Anzen Shinyo Kumiai, the two credit unions subject to a public bail-out by the government.

Last week's rejection by the Tokyo metropolitan government of its provision of low interest rate loans have increased fears among investors about the stability of the financial system.

The leading opposition party is trying to pin the blame on the finance ministry, and is trying to pressure Mr Masayoshi Takemura, finance minister, to resign.

Analysts point out that a prolonged debate over the issue could trigger political instability which will be negative news for the stock market.

HONG KONG

The National Peoples Congress in China, which began yesterday and runs for a fortnight, could provide a point of focus this week amid expectations of changes amoog the vice-premierships, which could consolidate the position of the pro-reform group.

On the corporate front, Hong Kong Electric, which operates the electric power monopoly in Hong Kong and which bettered market expectations by turning in a 33 per cent rise in net profits for the first half, reports full-year figures on Thursday, which will provide a pointer to the likely outcome for Hutchison and Cheung Kong, which report later.

Hong Kong Aircraft Engineering Company, the aircraft maintenance subsidiary of the Swire Pacific Group, reports full-year figures tomorrow.

Compiled by Michael Morgan

Global share offerings

Power generators placed with ease over weekend

The UK's first privatisation offering this year met with tremendous demand, both domestically and internationally, enabling it to be placed with great ease over the weekend.

The international offer price for the £4bn sale of Britain's two leading power generators was set yesterday at 486p per share in National Power and at 522p per share in PowerGen, the Treasury said.

The UK public offer prices, which reflect a discount of 10p per share, were 476p per share in National Power and 512p per share in PowerGen.

As expected, UK retail investors got more than half of the shares on offer: excluding over-allotments, they received 56.6 per cent of the shares sold.

That left 22.1 per cent of the offering for international institutions, which had bid keenly for the shares. At the international offer price, allocations of National Power shares were covered 6.5 times and allocations of PowerGen 9.1 times.

The shares will start trading today at 7.30 (local time) on the London Stock Exchange and at 14.30 (London time) on the New York Stock Exchange.

Other European privatisation programmes are also coming back to life. On Friday, the Spanish government gave the go-ahead to sell a further 15 per cent of the Repsol oil group in an international placement expected to raise about Pta165bn ($1.29bn). Final details are expected around mid-March.

The sale will cut the government's stake in Repsol to 25.5 per cent from 40.5 per cent. About half of the paper is due to be placed outside Spain in four sub-tranches – the UK, continental Europe, the US and the rest of the world.

The offering was originally planned for last autumn but was delayed due to unfavourable market conditions.

In Italy, preparations for the sale of IRI's stake in Stet, the quoted telecommunications group, are hotting up. In the selection process for the highly lucrative mandate of global co-ordinator of the sale – which could total up to $8bn – banks have been asked to complete and return questionnaires to IRI by today.

Most market participants expect the issue, which may be this year's largest European privatisation offering, to be launched in the second half of the year.

Meanwhile, in the private sector, Dresdner Bank and Kleinwort Benson are preparing an IPO for Germany's SGL Carbon, the world's leading manufacturer of graphite products.

The issue, which is expected to include international and US tranches, involves the sale of shares held by majority shareholder Hoechst and Pechiney of France, as well as raising about DM250m in new capital. The offering, which is seen totalling DM500 to DM600m, is expected to be launched around mid-March and priced in early April.

Elsewhere, the IPO for ASM Lithography, the Dutch producer of photo-lithography equipment used to make semi-conductors, met with healthy investor interest during its European roadsbows last week.

Some investors are said to have been encouraged by the strong performance of shares in SGS-Thomson, the French-Italian semi-conductor manufacturer floated last December in Paris and New York at $22¼ per share and currently trading around $30.

"Investors who missed SGS may see ASML as another opportunity to get into the European semi-conductor sector," said one dealer.

After this week's roadshows in the US, the issue is expected to be priced early next week. It will be listed on Nasdaq and the Amsterdam Stock Exchange.

Of the 11m shares to be sold, some 4.4m will be targeted at international accounts, with the rest sold in the US. At $15.5 per share – the middle of the SEC filing range – the issue should raise some $170m. CS First Boston is global co-ordinator, with Morgan Stanley acting US co-manager and international co-lead with ABN Amro.

Meanwhile, book-building for the international sale of 800,000 shares in Japanese consumer finance company ACOM continued last week, dampened slightly by Japanese stock market turmoil following the collapse of Barings, the UK merchant bank.

However, while the price of ACOM shares had fallen to Y2,390 on Friday from Y2,650 at launch, most of the drop happened immediately after the secondary share offering was announced, and before the Barings débâcle unfolded. The deal is expected to be priced early this week. Nikko is global co-ordinator, witb Merrill Lynch acting as joint lead manager for the international tranche.

In Indonesia, two pulp and paper companies are preparing almost simultaneous flotations on the New York Stock Exchange.

Roadshows for a 20m share IPO by Asia-Pacific Resources Ioternational Holdings (APRIL) will begin in Asia on Wednesday and move to Europe and the US, with pricing expected in early April. The issue has been filed at the SEC in a range of $11.50 to $13.50; at the mid-price, it totals some $250m. Salomon Brothers is global co-ordinator.

Morgan Stanley is preparing an IPO for Asia Pulp and Paper. The $400m offer is expected to be filed this week; roadshows are likely to start at the end of March and pricing in early April.

Roadshows for the first Indian GDR issue this year, a $100m offering by truck maker Asbok Leyland via Jardine Fleming, began last Thursday in Switzerland and Hong Kong and will continue this week in the US. The London roadshow is scheduled for today.

Whila the issue will re-open the Indian GDR sector, which has not seen any issuance for months, dealers doubt it will release a rush of other issues. Although dozens of deals had been mandated by the end of last year for launch in the first quarter, difficult market conditions have held them back.

Conner Middelmann

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Am. Express Credit 8% Yen Bd '96 Y80000.0
Australia 10¼% Bd '97 £102.50
Bank Greece 10¾% '10 £5.375
BP America 12¼% Nts '96 A$122.50
Cadbury Schweppes 11p
Cred.- Bankverein Fltg/Fxd Rate Nts '02 $2922.40
Dares Ests 8% Ln 92/97 £4.0
Denby 1.4p
Dewhurst 1.6p
Do 'A' N/Vtg 1.6p
ENSERCH $0.05
Finland (Rep.of) 10⅛% Bd '97 £101.25
Guaranteed Ex. Fin 9¼% Bd '08 £925.0
Do 7⅝% Nts '97 $762.50
Halifax Bldg Soc FRN 1999 (£) £157.38
Hardys & Hansons 6p
Irish Permanent Treas. FRN '97 £159.87
Joseph (L) 9¼% Ln 97/2002 £4.625
Lockhead $0.57
M & G Dual Tst 40.9p
Mitsui Fxd & FRN '98 Y2500000.0
Prior 0.05p
Quality Care Homes 3p
River & Merc. Extra Inc 1.96875p
Rockwell Intl $0.27
Sainsbury (J)(CI) 8½% Cap Bd '05 £212.50
Sweden 6½% Nts '03 $32.50
Welsh Water 9.3p
Westpac Banking 11¼% Bd '96 $112.50

■ **TOMORROW**
Angerstein Underwriting Tst 0.8p
Brasway 0.24p
Farepak 2.15p
Hydro-Quebec 9% Db Ser HT Mar '01 $450.0
Leeds Perm. Bldg Soc 11½% Nts '96 £575.0
Marling Inds 0.25p
Safeland 0.86p
Woolwich Bldg Scty FRN '96 £162.43

■ **WEDNESDAY MARCH 8**
Abbey Natl. Treas Servs FRN '99 $15.94
BP America 10% Nts '96 $500.0
Brit. Funds 7¾% £3.875
Halifax Bldg Scty FRN '99 ($) $16.09
Hydro-Quebec 10⅝% Db Ser HU Mar '01 C$106.25
Natl. Australia Bk Sb Var Rate Nts 2000 £171.88
Nat West Bank Var Rate Cap Nts '09 £172.60
Nationwide Bldg Scty FRN '95 £162.74
Renold 7⅝% 2nd Db 92/97 £3.8125
Treasury 5½% 08/12 £2.75
Treasury 10% '03 £5.0
Wood (John D) 0.75p

THURSDAY MARCH 9
Anheuser-Busch $0.40
Carclo Eng 3.2p
Challenge Bank FRN '97 $16.66
Exmoor Dual Inv Tst 2.25p
Funding For Homes 10⅛% Db '18 £5.0625
Investors Capital Tst Rest/Vtg 1.325p
Do Units £1.325
Japan Fin. Municipal Ents 6⅜% Bd '04 £63.75
Kelsey Inds 10p
Kitz 6½% Bd 2000 Y650000.0
Manweb 9.8p
Mazda Motor 5.5% Bd '01 Y550000.0
New Throgmorton Tst(1983) 1p
Treasury Fltg Rate '99 £1.5257

■ **FRIDAY MARCH 10**
Allied Signal $0.195
Argyll Gp 8⅛% Bd 2000 £81.25
Border Television 1.9p
Dun & Bradstreet $0.65
EIO Parry (India) IRs1.50
Exxon $0.75
Fenchurch 5.4p
FNFC 1p
Fuji Bk Int Fin Perp Sb FRN $17538.89
General Motors $0.20
Grace (WR) $0.35
Houston Inds $0.75
Lilly (Eli) $0.645
Mobil $0.85
Monsanto $0.63
Pelican 0.5p
Sabre Int (2) Ser N Var Rate Nts '96 Y62944.0
Do Ser Q Y67833.0
Scottish Power 4.55p
Sumitomo Heavy Inds FRN '98 Y68444.0
Sun Alliance 10⅝% Nts '97 £106.25
Texaco $0.80
Treasury 5½% 08/12 £2.75
United Tech $0.50
Warner-Lambert $0.65

■ **SUNDAY MARCH 12**
Chevron $0.4625

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Barr (AG), Breckenridge House, 274, Sauchiehall Street, Glasgow, 11.00
First National Finance Corp, Barber-Surgeons Hall, Wood Street, E.C., 12.00
Treatt, Bedford Lodge Hotel, Newmarket, 12.00
BOARD MEETINGS:
Finals:
ASW
BBA
British Polythene
British Vita
Burnfield
Cementone
Inveresk
M & G Inc Inv Tst
M & G Recovery Inv Tst
Mackie Int
Metal Bulletin
Relyon
Select Appointments
Smith & Nephew
Suter
Turnpyke
USDC Inv Tst
WSP
Interims:
Close Brothers
Redrow

■ **TOMORROW**
COMPANY MEETINGS:
Alvis, Savoy Hotel, Strand, W.C., 12.00
BOARD MEETINGS:
Finals:
Baltic
Barclays
Beta Golbal Emerging Mkts Inv Tst
Brent Int
CRH
Canadian Pizza
Fidelity European Values
Fisons
Kalon
Kerry Grp
MAID
Microvitec
Partco
Parity
Rentokil
Smaller Co's Inv Tst
TI
Trade Indemnity
Transport Development
Interims:
My Kinda Town
Perpetual Japenese Inv Tst
Polypipe
SWP

■ **WEDNESDAY MARCH 8**
COMPANY MEETINGS:
Kelsey Inds, Kelsey House, Wood Lane End, Hemel Hempstead, 11.00
Torex Hire, Plymouth Moat House, Plymouth, 11.30
BOARD MEETINGS:
Finals:
BAT
Barr & Wallace Arnold
Bluebird Toys
Brandon Hire
Cadbury Schweppes
Calderburn
Cape
Cookson
Commercial Union
Haden MacLellan
Hambro Countrywide
Gibbs & Dandy
Ladbroke
Laporte
More O'Ferrall
North Midland Construction
RTZ
Roxboro
Sema
Spargo
Standard Chartered
T & N
Victaulic
Waste Recycling
Interims:
Beazer Homes
Hays
Lloyds Chemists
Scottish Asian Inv

■ **THURSDAY MARCH 9**
COMPANY MEETINGS:
Brooke Tool Eng., 111, Charterhouse Street, E.C., 12.00
First Philippine Inv Tst., 197, Knightsbridge, S.W., 10.30
Lookers, Lancashire County Cricket Club, Talbot Road, Stretford, Manchester, 12.00
BOARD MEETINGS:
Finals:
Arjo Wiggins
BTR
Christies Int
Clarke (T)
Courtaulds Textiles
F & C Inv Tst
GKN
Gestetner
Hillsdown
IMI
Independent Newspapers
Instem
Lloyds Smaller Co's Litho Suppliers
MTL Instruments
New Guernsey Secs
Pentland
Rolls-Royce
Rolls-Royce Power Eng
Telemetrix
Willis Corroon
Interims:
Baring Emerging Europe Tst
Cornwell Parker
Logica
Mucklow (A & J)
Raine

■ **FRIDAY MARCH 10**
COMPANY MEETINGS:
Chiltern Radio, National Farmers Union, 55, Goldington Road, Bedford, 10.00
South County Homes, Hambros Conference Centre, 41, Tower Hill, E.C., 12.30
Trencherwood, Stakis Hotel, Oxford Road, Newbury, Berkshire, 11.00
BOARD MEETINGS:
Finals:
Exco
Expamet
Gartmore Emerging Pacific
Latin American Inv Tst
Persona
Serif
Thornton Pan Euro Inv
Interims:
Walker (T)

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

CONFERENCES & EXHIBITIONS

MARCH 9
Succession Planning in Private Companies using Employee Share Ownership Plans
Sell some or all of your shares and avoid capital gains tax using an Employee Share Ownership Plan (ESOP). ESOPs borrow money on behalf of the workforce and create an internal market in the shares. Employees can be given shares, paid for tax-efficiently by the company, or can be asked to contribute.
Phone ESOP Centre on 071-436 9936
LONDON

MARCH 9 - 10
Risk Management Workshops
The techniques for identifying and quantifying exposures and designing risk management strategies. Currency Risk £275 - 9 March Interest Rate Risk £275 - 10 March.
Contact: Fairplace.
Tel: 0171 329 0595 Fax: 0171 329 3853
LONDON

MARCH 13
The Foreign Exchange Market: Rates, Risks and Capital Concerns
The fourth annual Dow Jones Telerate foreign exchange conference is built around the theme of foreign exchange market risk and the capital required to protect market participants. Speakers will include Michael Foot, Bank of England and senior representatives from the European Commission, JP Morgan, Hong Kong Bank, Bankers Trust.
Contact: Arielle Savona, Dow Jones Telerate
Tel: 0171 832 9737 Fax: 0171 353 2791
LONDON

MARCH 13-14
Selling Financial Products
Planning and Development a Sales Initiative; Needs Analysis/Product Knowledge; Selling Skills - Presentations, Telephone Techniques, Body Language, "Buying Signals"; Negotiating - Handling Objections and Sensitive Customers, Making Concessions, "Closing the Sale"; Relationship Management - Listening Communicating, Dealing with Complaints and Competition, Maintaining Good Relationship. £395 2 DAYS
Contact: Fairplace Tel: 0171 329 0595
Fax: 0171 329 3853
LONDON

MARCH 13-15 - MAY 9-11
Introduction to Capital Markets
Will appeal to investment & merchant bankers, and those who need to revise a knowledge of this field. Provides a solid understanding of the products and techniques used by issuers, investors and traders.
• Debt or equity? • Bonds • FRNS warrants and convertibles • Derivative products. £795 plus VAT
Contact: BPP Bank Training - Hilary Jackson
Tel: 0171 628 8444 Fax: 0171 628 7818
LONDON

MARCH 14
Public Standards, Business Values - Making Them Work Together
A one day Leadership Conference sponsored by Charter 88 for Executive and Non-Executives in Business and the Public Sector. Speakers include: Sir John Harvey-Jones; Anthony Sampson; Helena Kennedy QC; Christopher Haskins; Sheila McKechnie; Andrew Foster.
Tel: 0171 222 1280 Fax: 0171 222 1278
LONDON

MARCH 14/15
Getting the Best from Banks
Getting the best from your banks is a practical guide to managing corporate banking relationship. Topics include how a bank thinks, behaves and operates in its relationship with your company. A highly participative 2 day course with much discussion and case studies and presented by experienced practitioners. £520 + VAT.
Lywood David International Ltd.
Tel: 0959 565820 Fax: 0959 565821
LONDON

MARCH 14-18 - JULY 26-28
Mergers and Acquisitions
The role of acquisition in corporate strategy, due diligence, regulatory procedures, financing complexities, MBO's MBI's and cross border transactions.
• Acquisition vs organic growth • Sensitising forecasts • Strategies for hostile bids • Takeover Code and Monopolies and Mergers Commission. £795 plus VAT
Contact: BPP Bank Training - Hilary Jackson
Tel: 0171 628 8444 Fax: 0171 628 7818
LONDON

MARCH 15
The Emerging Role of the IS Function
Speaker Vaughan Merlyn, Ernst & Young Center for Business Innovation. Annual Conference and AGM of Society for Information Management, the independent global society promoting partnership between senior business and IT management.
Details tel: 01754 395205
LONDON

MARCH 15-18
Retail Week Conference & Exhibition
Covering all the major retail issues of the moment. With over fifty speakers, ranging from Archie Norman, Chief Executive at Asda, to key players from the likes of Boots, British Shoe, Selfridges, Levi's Tesco, Next and Blockbuster.
£675 (plus VAT) for retailers. £995 (plus VAT) for non-retail with reductions for group booking.
Call Sharon Mackenzie on 0181-688 7788 or fax: 0181-680 0306
LONDON

MARCH 15, APRIL 4
Technology & The Lending Banker
Aimed at executives and senior management in the financial sector who are involved in a change programme in credit risk management; and managers wishing to understand the latest developments in computer-based lending programmes.
Contact FUTURES Quality Training, part of AT&T. Tel 0121 742 9099,
Fax 0121 742 9964
LONDON

MARCH 20
Settlement Operations Review - Far Eastern Markets
The wide variety of Far Eastern stockmarkets and their differing practices has caused serious problems in some Settlement Departments. This course reviews 10 different Far Eastern Markets Settlement Operations including China (Shanghai and Shenzhen).
Contact Investment Education plc
Tel: 0161-228 2400 Fax: 0161-228 2441
LONDON

MARCH 20-21 (REPEATED IN APRIL)
Self Managed Teams &Business Process Re-Engineering (BPR)
Leading seminar series on Business Process Re-engineering. Enhanced 1995 programme includes new sections on self-managed teams and radical BPR. Coaching style of presentation. Based on 150 successful BPR projects. 60 organisations in the private and public sectors attended in 1994
Contact: Vertical Systems Intercede Ltd.
Tel: Richard Farris 01455 250 266
Tel: Mike Abbot 0734 464 746
Fax: 01455 890821
LONDON

MARCH 21
So you want to be a Consultant?
More and more people see self-employed consultancy as an alternative to traditional "paid" employment. This one-day conference will give delegates the opportunity to assess the risks and rewards of becoming a consultant and provide a practical advice on the reality of setting up a consultancy business.
Institute of Directors 0171 730 0022
LONDON

MARCH 21-22
Offshore Financial Centres: Competing for International Capital
12 Offshore centres in Europe, Caribbean USA and Indian Ocean will come together to discuss the latest developments in their jurisdictions and explore strategies to attract international capital. Essential meeting for tax planners, financial and fund managers.
Euromoney Tel: 0171 779 8629
LONDON

MARCH 22
Presentations for Finance Professionals
Sharpen your presenting skills. Businessmen, designers, actors and stand-up comedians show you how to package your figures for the most difficult executives, when to use humour, charts ... how to give life to your presentations.
Keynote speaker: Alan Dibbo, CIM, Royal Court Theatre.
Contact: Executive Presentations
Tel. 0171 251 5055 Fax: 0171 490 0566
LONDON

MARCH 22-23
Corporate Purchasing Cards
In association with The Chartered Institute of Purchasing and Supply. First major UK conference examining how purchasing cards can drastically reduce low value purchase costs. Case studies from, amongst others: Rank Xerox, BP Chemicals, Northern Telecom, Intel, Amoco Corporation USA
Contact: AIC Conference 071 827 5065
LONDON

MARCH 22
A Guide for Housing Associations to Getting the Best out of Local Authorities
A self explanatory course for Housing Association executives as well as Local Authority executives or Bankers dealing with Housing Association.
Contact Investment Education plc
Tel: 0161-228 2400 Fax: 0161-228 2440
LONDON

MARCH 23
Graphic Arts and the Environment
Jack Cunningham, MP, Shadow Trade and Industry Secretary keynotes at this conference for publishing, repro and printing industries. Topics include anti-pollution legislation, paper recycling and production, company environmental policy: BS7750 and environmental improvements for pre-press operations.
Contact: The Hammond Organisation Ltd.
Tel. 0181-943 9700 Fax: 0181-943 9997
LONDON

MARCH 23
Polymer Potential; Designing the Future with Plastics
One day series of workshops exploring new polymer technology and the versatility of plastic in design, building, construction and recycling, with leading experts and industrialists. Organised by the Design Museum and sponsored by the DTI.
Contact: Alison Ashford, Design Museum
Tel: 0171 403 6933 Fax: 0171 378 6540
LONDON

MARCH 23
Technology & Innovation: The Management Challenge
Throughout British industry and commerce, senior managers are faced with major decisions on technology affecting the competitiveness and shape of their organisations. This Strategic Planning Society and Cranfield School of Management conference focuses on practical examples of ways in which industry can ensure that in future it is the master of technology rather than its slave.
Details: Jo Malone, The Strategic Planning Society, 0171 636 7737
LONDON

MARCH 23-24 1995
PlanEcon Conference Announcement
Transition & Recovery in Eastern Europe and the Former Soviet Republics and East European & Former Soviet Energy Sector: Recovery in Sight? PlanEcon, DRI/McGraw-Hill conferences with Boris Fedorov, Petr Bod and Terry Adams. Contact Corlone Redonnet on + 44-81-545 6212.
LONDON

MARCH 23 & 24
SMI Private Finance Initiative (PFI) Series
Vital series of highly focused PFI events on Private Finance Risk Assessment, PFI in Information Technology, Local Authorities, Core Health Services, and Transport Infrastructure with speakers from HM Treasury, Government PFI Panel, major government departments, and all key public and private sector players.
Please call Rachel Dening on (0171) 417 7700 for detailed programmes.
LONDON

MARCH 27-31
Introduction to Lending
Personnel with little or no credit experience, who will be lending to individuals/small businesses; or staff who require a grounding in basic lending skills to enable them to lend to larger companies. Provides students with skills to identify & analyse risks attached to specific lending propositions, capability of translating analysis into balanced lending decisions & preparing balanced credit reports.
Contact FUTURES Quality Financial Training, part of AT&T.
Tel: 0121 742 9099 Fax: 0121 742 9964
LONDON

MARCH 27 - 28
Free Windows™ in Finance Exhibition
The top suppliers will be exhibiting their latest Microsoft® Windows™ based IT solutions. Focusing on Corporate Banking, Retail Banking and Insurance. Entry is free, pre-register by calling:
Charlotte Stone on 0171-242-2324
LONDON

MARCH 28 - 29
Reducing Risk Through Effective Documentation of Derivatives
This important conference has attracted immense interest with the Baring's collapse emphasising the need for effective control and documentation. Take advantage of priceless information and benefit from the experiences of Banque Paribas, UBS, Commerzbank, Swiss Bank and Societe General plus the cream of the legal profession.
Contact Mark Wheeler, EuroForum.
Tel: +44 171 793 1230, Fax. +44 171 793 1291
LONDON

MARCH 29
European TV Sports
Join leaders of the sports media industry for an in-depth discussion on the latest trends. Panel topics include, Sports Marketing In The Digital Age, Sports Rights Finance, Pay-Per-View, Opportunities in New Programming, Interactive TV & Multimedia.
Contact: Patricia Baynton, Kagan World Media Limited Telephone: 0171 371 5680, Fax: 0171 371 8715.
LONDON

MARCH 29
CRI Seminar - Universal Service Obligations - A Policy Review
The seminar reviews consumer rights to utility services, costs of USO, and funding of USO across the regulated utilities. Speakers include OFGAS, OFTEL, Rail Regulator, Consumer's Association. Cost £299 + VAT.
Contact: Gail Main Tel: 0171 895 8823
LONDON

MARCH 29-30
How to successfully plan and manage re-engineering projects:
The role of frameworks, information technology and software tools to support process redesign. Presents a practical guide to managing the analysis, redesign, modelling & implementation phases of process re-engineering. Outlines how to develop new skills & capabilities, & how to apply the latest software tools & methodologies.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

MARCH 30
Banks, The City and Politics
The banks and; the economy; industry; the press; the government. The Chartered Institute of Bankers' first annual conference is sponsored by AT&T and will be chaired by Sue McGregor. Speakers include Eddie George, Tom Farmer and Christopher Fildes.
Contact: Gillian Wright, CIB
Tel: 0227 762600 Fax: 0227 763788
LONDON

MARCH 30 -31
Lateral Thinking and Serious Creativity for Management. Created by Edward de Bono
Presented by: Caspar de Bono and Chuck Dymer. Learn to Break loose from established thinking patterns. Generate fresh concepts. Keep up with changes. Be more creative at the strategic level.
Contact: Juliet Muchenje, Moodnock
Tel: 081-871 2546 Fax: 081-871 3660
LONDON

APRIL 3
Wills and Probate - Essential Law & Taxation
This one day conference will include the Finance Bill 1995 changes and will focus on the following key areas: Drafting the will we efficiently; Chattels and Works of Art; Valuing Real Property; Share Valuations, Insolvent Estates; Administration of the Estate - Tax Issues; View from the CTO and Post- Death Variations.
Contact: Vicki Goffin, IBC Legal Studies and Services Limited.
Tel: 0171 637 4383 Fax: 0171 631 3214
LONDON

APRIL 3-7
Document Management Roadshow visiting Glasgow, Bradford, Coventry, Heathrow and Bristol
Providing efficient access to information in your business can be a daunting task! Find out how Document Management and Workflow can improve productivity and customer service. Free seminars and presentations
Tel. 01905 613236 or Fax: 01905 29138 for registration details
VENUE: GLASGOW, BRADFORD, COVENTRY, HEATHROW AND BRISTOL

APRIL 4
Contentious Probate - Death and Disinheritance
An intensive one day workshop designed for practitioners on the practical aspects and common problems of a probate action. Revolving round a day long case study, delegates will be invited to put themselves in the shoes of the claimant, professional executor and residuary beneficiaries and consider relevant specimen documents as the case progresses.
Contact: Vicki Goffin, IBC Legal Studies and Services Limited.
Tel: 0171 637 4383 Fax: 0171 631 3214
LONDON

APRIL 4 - 9
The British International Antiques Fair
A major event in the world of antiques. Established in 1982 the British International Antiques fair ranks among the worlds most important antiques events.
150 dealers display and estimated £25 million worth of antiques and fine art of the highest quality. All items for sale and fully authenticated. To be opened by the Viscountess Cobham at 12 noon on Tuesday 4th April
Enquiries. Linda Colban - Centre Exhibitions. Tel. 0121 767 2760.
BIRMINGHAM

APRIL 4 - 5
East European Logistics Briefing
Nowhere is the gap between strategic intentions and operational fulfilment so wide as in the Eastern and Central European economies. This briefing will look at practical issues such as opportunities for contracting out transport and warehousing, and customer service levels.
Contact: Pam Patent at Cranfield School of Management. Tel. +44 (0) 1234 751122
CRANFIELD

APRIL 5-7
Management Skills for Senior Executives
Aimed at senior managers and executives in the financial sector with direct people management responsibilities. Delegates will be equipped with proven frameworks & concepts across a range of management skills, understand & practise the role and skills of management and team building, examine the strategic implications of organisational theory and apply them to their own organisations development.
Contact FUTURES Quality Financial Training, part of AT&T.
Tel: 0121 742 9099 Fax: 0121 742 9964
LONDON

APRIL 6-7
Financing Growth in Central & Eastern Europe
8 ministers, 6 Central Banks governors, distinguished panel of international experts will discuss major developments in capital markets and project & trade finance. Immediately prior to the EBRD annual meeting. Cocktail sponsored by Deloitte Touche Tohmatsu International.
Euromoney Tel: 0171 779 8683
LONDON

APRIL 6 & 7
Managing Relocation
The UK's top major annual relocation conference and exhibition covers a wide range of domestic and international relocation issues. Sessions include: relocation policy review; tax, NI & reporting; international remuneration; group moves and operating in Eastern Europe.
Contact: Natalie Munden CBI Employee Relocation Council. Tel: 071 379 7400 Fax: 071 836 1114.
NORTHAMPTON

APRIL 10-11
Corporate Finance Overview
A detailed overview of Corporate Finance activities and practice. Useful for lawyers, accountants, auditors, IT and human resource executives or trainees. Also in Edinburgh on 30-31 May.
Contact Investment Education plc
Tel: 0161-228 2400 Fax: 0161-228 2440
LONDON

APRIL 10 - 12
Introduction to Derivatives
It is vital for bankers at the leading edge to be fully acquainted with the risks and rewards of new and sophisticated market instruments. Financial Instruments, Credit Risk Currency Derivatives, OTC vs Exchange Traded Options, Exotic, Standard Currency Options, Swaps, Interest Rate Derivatives, Role of Financial Futures, FRA's, Interest Rate Options, Swaps, Swaptions, Equity and Commodity Derivatives, Warrants, Options, Convertibles, Oil and Metal Swaps, Options.
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853
LONDON

APRIL 11 - 13
Customer Profitability
Suitable for executives and managers in the financial sector who are involved with or intend to implement customer profitability systems. Provides delegates with an understanding of how customer profitability systems can add to profits and competitive advantage, prepare & interpret customer profitability statements & be aware of implementation difficulties and practical solutions which will achieve a working profitability analysis.
Contact FUTURES Quality Financial Training, part of AT&T.
Tel: 0121 742 9099 Fax: 0121 742 9964.
LONDON

APRIL 11-12
UK Airports Policy: A New Agenda
A conference examining runway capacity issues, slot allocation, the planning and environmental aspects of future airport needs and regional airport privatisation. Speakers include Viscount Goschen (Minister for Aviation), Des Wilson (BAA), Keith Williams (NATS) & representatives from CAA, DoT & US airlines. Chaired by Russell Sunderland, Chairman, RUCATSE Working Group.
Contact: Claire Dexter, The Waterfront Conference Co
Tel 071 730 0430 Fax. 071 730 0460
LONDON

APRIL 12 & 13
The Russian Securities Market
Highly successful event recently held in Moscow examining the implications of new legislation and potential for foreign investors. Held in association with White & Case with key speakers from the major Russian Ministries and key private sector players.
Contact Guyonne James (UK) (quote ref FT), INTERFORUM Services Ltd.
Tel: 44 (0) 171 386 9322 Fax: 44 (0) 171 381 8914
LONDON

APRIL 24
Advanced Corporate Finance
Studies the structure of Corporate Transactions as well as Techniques of Deal Making. A more advanced Corporate Finance course assuming some knowledge or prior attendance on the Overview course. Also in Edinburgh on 30-31 May.
Contact Investment Education plc
Tel: 0161-228 2400 Fax: 0161-228 2440
LONDON

APRIL 24-26
6th International Delivery Systems Conference
Learn more about; Planning an overall delivery strategy. Specific channels of distribution. The role and future of the branch network. Merchandising the branch. Direct/Telephone Banking. The Information Superhighway. International speakers from Chemical Bank, Midland Bank, JBOS etc.
Contact: Sandra Martin, Lafferty Conferences.
Tel: (+353-1) 6718022 Fax: (+353-1) 6718594
LONDON

APRIL 24-27 & SEPTEMBER 11-14
Fundamentals of Fund Management (Residential)
Suitable for all those who require a thorough understanding of the overall investment management process - operations personnel, regulators, consultants, accountants, traders and bankers - wishing also to take advantage of the intensive learning environment provided by a country residential programme. Particular emphasis will be placed on constructing a portfolio and managing it.
£1,850 plus VAT Director: Dr Terry Watsham
Contact: BPP Bank Training - Hilary Jackson
Tel: 0171 628 8444 Fax: 0171 628 7818
LONDON

APRIL 24 - JUNE 12
FT - City Course
Arranged jointly by the Financial Times and City University Business School, this Course provides and invaluable overview of how the City operates. The Course is of direct relevance to new recruits to the City, sales and marketing personnel needing to understand the requirements of City firms and information and software provides specialising in the area of banking and finance.
Enquiries: Financial Times
Tel: 081-673 9000 Fax: 081-673 1335
LONDON

APRIL 25
Review of Local Government Borrowing and Investment
A comprehensive review of Local Government borrowing and investment including legislation, CIPFA Treasury Management requirements, investments via Housing Associations, etc. Includes cases and strategy. Essential for Local Government Treasurers, Bankers, Housing Association finance executives, etc.
Contact Investment Education plc.
Tel: 0161 - 228 2400 Fax: 0161 -228 2440
LONDON

APRIL 26
Capital Accounting - Implementing CIPFA
The new CIPFA Capital Accounting system is the most fundamental change in local authority practice in the last 100 years. Course explains how the new system works and the practicalities of implementation.
Contact Investment Education plc
Tel. 0161-228 2400 Fax: 0161-228 2440
LONDON

APRIL 26-27
Re-engineering Customer Relationships:
How to redesign core processes and transform corporate culture to achieve service excellence. As products become easier to imitate and markets increasingly crowded, companies are realising that high levels of customer service and satisfaction are now key to achieving competitive advantage and sustaining profitability.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

APRIL 26-27
Derivatives Risk Management
Executives in the financial industry involved in planning, organising and directing financial instruments in banking and treasury departments. Developing new financial products, Trading in derivatives; Controlling exposure and risk; Developing the technology to support derivatives. £790 plus VAT
Director - Prof Dimitris Chorafas
Contact: BPP Bank Training, Hilary Jackson
Tel: 0171 628 8444 Fax: 0171 628 7818
LONDON

MAY 2
Middle East Stock Markets
A full day conference for investors covering 10 Arab Islamic markets. Key speakers include Khaleel Ahmed, senior investment officer, International Finance Corporation Washington; Mahmoud al-Jarwani, executive president, Muscat Securities Market; Dr Umayya Toukan, director general, Amman Financial Market; Dr Fag El Nour, Chairman, Capital Markets Authority, Egypt. £75 (+VAT) including lunch.
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Hyde Park Hotel, LONDON

MAY 2 & 3
Beyond EIS
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Contact: AIC Conferences 0171 827 5947
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MAY 16 - 17
Creating the Learning Organisation:
The essential route to continuous improvement, flexibility and corporate renewal. Conference provides a practical guide to developing the programmes, skills and working practices required to embed organisational learning in the business. Keynote presentation David Garvin, Professor of Business Administration, Harvard Business School.
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JUNE 15 & 16
Mergers & Strategic Partnerships For Building Societies
An examination and evaluation of the strategic options open to Building Societies. Of particular significance given the imminent lifting of restrictions on societies. Chief Executives from Abbey National, Alliance & Leicester, N&P, Britannia, Portman and Scarborough will address the event.
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INTERNATIONAL

MARCH 9
Portfolio Investment in the Russian Federation
An international conference looking at the latest developments in the Emerging Capital Markets of the Russian Federation, covering equity and debt markets. Presentations by leading experts, brokers, investment bankers, fund managers, Russian corporates, and Russian policymakers on the economic reform programme.
Contact: Arielle Savona, Dow Jones Telerate
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European Monetary Union - Outlook for European Capital Markets
Special Guest Speaker: His Excellency, Mr Jacques Santer, President, European Union. This Conference addresses key issues related to development of EMU including; different dimensions of stages II & III, the Convergence Criteria, and how the Single Currency might affect major financial markets. The conference has many distinguished speakers.
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LUXEMBOURG

MARCH 23
Eurobudget 95 Conference
Business opportunities for funding or work in 80.9 billion Ecu 1995 EU Budget expenditure, for national, regional, local authorities/private sector consultants, suppliers, contractors. Includes: 200 page EU Budget Guide
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BRUSSELS

MARCH 23 & 24
Investing in the Russian Securities Market
Will identify sectors of the Russian economy that are the most attractive to foreign investment post privatisation. Addresses the opportunities and challenges of investing in the Russian securities market by demonstrating how to overcome the risks.
Contact: Mark Wheeler, Euroforum
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MARCH 27-29
Sub-Saharan Oil & Minerals
The foremost conference on African oil and mining. Speakers include President Mandela and Cabinet Ministers from over 30 African countries. Co-hosted by the SA Chamber of Mines, Gabonese Ministry of Mines & Energy; Nigerian National Petroleum Corporation; Sonangol; SA Ministry of Mineral & Energy Affairs and Europe Energy Environment.
Contact, 3 Hayne St, London EC1A 9HH
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JOHANNESBURG

MARCH 29 & 30
Central & Eastern European Power Industry Forum
The latest and future developments in the electricity generating industry in Central and Eastern Europe. A Forum on ownership issues, creative project financing, competition and cooperation opportunities. High level.
Contact: PennWell C&E
Tel. 31-30-650963 Fax: 31-30-650915
WARSAW, POLAND

MAY 2 & 3
South Africa - A New Era for Business, Finance and Investment
Issues to be addressed at this high-level forum will be the reconstruction and development programme, the role of privatisations, portfolio investment opportunities, creating the right framework for economic growth and implementing affirmative action and black empowerment.
Enquiries: Financial Times
Tel: 081 673 9000 Fax: 081-673 1335.
LONDON

MAY 10 &11
Privatisation of the European PTT Telecoms
What is at stake for institutional/private investors and the European telecoms landscape? Restructuring, share issues, future regulatory framework, shareholder value, privatisation experience since 1993. High-ranking speakers will give you first-hand information.
Contact: The Wall Street Journal Europe/ Handelsblatt conferences
Tel: +49-211-9686 586,
Fax: +49-211-9686 502
FRANKFURT

MAY 10 - 12
Second European Precious Metal Conference
The European Precious Metals Industry is currently facing the twin challenges of increasing environmental legislation and stringent technical requirements. These are creating opportunities for the development of new applications using advanced precious metals technology. This conference will review these important issues and explore solutions and opportunities. Contact: Monique Jones Eurometaux Secretariat.
Tel. 322 775 63 15 Fax. 322 779 05 23
PORTUGAL

MAY 16
Euro SMEs 95
European Union finance for Small and Medium Sized Enterprises: including vocational training, employment, R & D, telecomms, IT, networking, subcontracting, regional development etc. Top speakers from EC and financial institutions.
Contact: Societe Generale de Developpement SA
Tel: +322 512 46 36 Fax. +322 512 4653
BRUSSELS

MAY 16-18
POWER-GEN Europe 95
Investment and Financing in the Power Industry, Trends and Policies, Combustion and Operating Power Plants 150 selected conference presentations. Over 230 exhibiting companies. Delegates and visitors from over 51 countries, especially from Central, Eastern and Western Europe.
Contact, PennWell
Tel: 31-30-650963 Fax: 31-30-650.915
AMSTERDAM

MAY 21 - 24
CO-OPERATION - The Textile Institute's World Conference
Industrial, commercial and consumer related topics from the stand-point of partnership development within and between enterprises, sectors and countries. Focusing on the manufacture design of clothing and technical products, logistics, retailing, brand franchising, education/training.
Contact Sinead Smith, TI International Headquarters, Manchester, UK. Tel: +44 (0) 161 834 8457 Fax: +44 (0) 161 835 3087
ISTANBUL,TURKEY

OCTOBER 10-12
World Aid/Euro Aid 95 Conference & Networking Exhibition
Business opportunities in worldwide aid programmes for EU consultants, contractors, suppliers, governments, financial institutions etc. Networking meeting place. Includes WORLD AID GUIDE.
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FINLAND (Mar 3 / Mks)

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GREECE (Mar 3 / Drachma)

ITALY (Mar 3 / Lire)

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PORTUGAL (Mar 3 / Escudo)

SPAIN (Mar 3 / Pts.)

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SWITZERLAND (Mar 3 / Frs.)

TURKEY (Mar 2 / TL Lira)

PACIFIC

JAPAN (Mar 3 / Yen)

AUSTRALIA (Mar 3 / Aus$)

HONG KONG (Mar 3 / H.K.$)

INDONESIA (Mar 1 / Rupiah)

MALAYSIA (Feb 28 / MYR)

NEW ZEALAND (Mar 3 / NZ $)

SINGAPORE (Mar 2 / S$)

SOUTH KOREA (Mar 3 / Won)

TAIWAN (Mar 3 / TW $)

THAILAND (Mar 3 / Baht)

AFRICA

SOUTH AFRICA (Mar 3 / Rand)

NORTH AMERICA

CANADA

TORONTO (Mar 3 / Can $) 4 pm close

MONTREAL (Mar 3 / Can $) 4 pm close

INDICES

US INDICES

■ RATIOS

	Feb 24	Feb 17	Feb 10	Year ago
Dow Jones Ind. Div. Yield	2.69	2.72	2.72	2.62
	Mar 1	Feb 22	Feb 15	Year ago
S & P Ind. Div. yield	2.36	2.38	2.36	2.39
S & P Ind. P/E ratio	17.32	19.60	19.57	24.34

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Maxus	12,099,900	5½	-⅛
Hanson	10,601,800	19⅝	+⅛
YPF Soc	9,136,300	15⅛	-1⅛
US Shoe	7,695,900	24⅝	+5⅝
Telefonos	6,363,800	26½	-½
IBM	5,408,700	79⅞	+2⅜
RJR Nabisco	3,969,000	5½	+⅛
Citicorp	3,591,300	42⅝	-1⅛
Telefonic	3,482,900	17⅜	+½
Reading Bts	3,077,800	7⅝	-⅛

■ TRADING ACTIVITY

● Volume (million)

	Mar 3	Mar 2	Mar 1
New York SE	330,832	329,421	362,551
Amex	16,394	17,606	10,861
NASDAQ	(a)	272,650	313,728
NYSE			
Issues Traded	2,922	2,945	2,943
Rises	980	1,002	978
Falls	1,154	1,177	1,256
Unchanged	788	766	709
New Highs	45	50	71
New Lows	68	43	33

INDEX FUTURES

■ CAC-40

■ DAX

■ OMX

■ SOFFEX

■ S&P 500

■ Nikkei 225

FT FREE ANNUAL REPORTS SERVICE

■ TOKYO - MOST ACTIVE STOCKS: Friday, March 3, 1995

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	8.5m	340	+5
Toshiba Corp	8.2m	616	-2
Keihin E Exp	5.3m	556	-4
Mitsubishi Heavy	5.2m	630	+13
Hitachi	4.7m	888	+8
Sumitomo Constn	4.2m	747	+12
NEC Corp	3.5m	940	+6
Suruga Bank	3.5m	666	-8
General Sekiyu	3.1m	923	-1
Sanyo Electric	2.7m	507	-3

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Mar 3		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.4197	+0.0759	129 - 265	16.5827	16.3282	16.4072	0.9	16.3735	1.1	-	-	108.9
Belgium	(BFr)	47.9870	+0.1858	685 - 055	48.2750	47.6960	47.957	0.8	47.872	1.0	47.382	1.3	109.3
Denmark	(DKr)	9.2531	-0.0281	482 - 579	9.3012	9.2022	9.2496	0.5	9.2417	0.5	9.1873	0.7	107.9
Finland	(FM)	7.1251	+0.02	189 - 313	7.1920	7.0920	-	-	-	-	-	-	87.1
France	(FFr)	8.1948	+0.0435	914 - 981	8.2323	8.1539	8.1958	-0.1	8.1925	0.1	8.1449	0.6	108.3
Germany	(DM)	2.3281	+0.0074	270 - 291	2.3408	2.3196	2.3253	1.5	2.3193	1.5	2.2856	1.8	112.3
Greece	(Dr)	372.962	+3.188	175 - 748	374.748	369.794	-	-	-	-	-	-	69.1
Ireland	(I£)	1.0076	+0.0018	071 - 081	1.0088	1.0011	1.0078	-0.2	1.0079	-0.1	1.0054	0.2	97.4
Italy	(L)	2691.40	+49.94	838 - 442	2687.75	2646.08	2699.8	-3.7	2714.9	-3.5	2781.7	-3.4	69.3
Luxembourg	(LFr)	47.9870	+0.1858	685 - 055	48.2730	47.6960	47.957	0.8	47.872	1.0	47.382	1.3	109.3
Netherlands	(Fl)	2.6142	+0.0114	132 - 151	2.6235	2.5984	2.6113	1.4	2.6047	1.5	2.5686	1.7	109.1
Norway	(NKr)	10.2953	+0.0372	906 - 999	10.3977	10.2599	10.2939	0.2	10.2914	0.1	10.2787	0.2	99.4
Portugal	(Es)	241.942	-0.68	808 - 075	243.455	240.508	242.542	-3.0	244.192	-3.7	-	-	97.0
Spain	(Pta)	205.856	+1.268	730 - 981	206.521	204.424	206.281	-2.5	207.078	-2.4	211.001	-2.5	79.3
Sweden	(SKr)	11.7803	+0.1298	818 - 988	11.8412	11.6939	11.7921	-0.2	11.7954	-0.2	11.8069	-0.1	76.8
Switzerland	(SFr)	1.9698	-0.0001	688 - 704	1.9802	1.9841	1.9651	2.7	1.9561	2.7	1.9096	3.0	110.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	87.9
Ecu	-	1.2542	+0.0071	534 - 549	1.2607	1.2461	1.2545	-0.2	1.2532	0.3	1.247	0.6	-
SDR†	-	1.071700	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6250	+0.0361	246 - 254	1.6254	1.6025	-	-	-	-	-	-	-
Brazil	(Cr)	1.3949	+0.0399	921 - 976	1.3976	1.3683	-	-	-	-	-	-	-
Canada	(C$)	2.2759	+0.0419	750 - 768	2.2768	2.2480	2.2799	-2.1	2.2847	-1.6	2.2986	-0.5	81.3
Mexico	(New Peso)	9.8054	+0.3892	626 - 481	9.8481	9.6773	-	-	-	-	-	-	-
USA	($)	1.6248	+0.0354	244 - 251	1.6251	1.6022	1.6244	0.3	1.6239	0.4	1.612	0.9	92.4
Pacific/Middle East/Africa													
Australia	(A$)	2.1979	+0.0435	908 - 991	2.1991	2.1945	2.2005	-1.4	2.206	-1.5	2.2312	-1.5	83.2
Hong Kong	(HK$)	12.5631	+0.2743	600 - 662	12.5662	12.3895	12.5623	0.1	12.5686	-0.8	12.4884	0.6	-
India	(Rs)	51.4721	+1.426	798 - 644	51.5644	51.3798	-	-	-	-	-	-	-
Israel	(Shk)	4.6193	+0.0773	142 - 244	4.8244	4.7728	-	-	-	-	-	-	-
Japan	(Y)	153.076	-0.16	986 - 166	154.160	152.360	152.536	4.2	151.401	4.4	145.391	5.0	153.6
Malaysia	(M$)	4.1435	-0.0865	422 - 448	4.1448	4.0865	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.5437	-0.0361	421 - 452	2.5452	2.5396	2.5496	-2.8	2.5594	-2.5	2.584	-1.6	96.7
Philippines	(Peso)	42.0611	+1.233	471 - 151	41.4151	41.7471	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.0934	+0.1324	918 - 949	6.0940	6.0091	-	-	-	-	-	-	-
Singapore	(S$)	2.3493	+0.0467	484 - 502	2.3502	2.3199	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.8016	-0.073	991 - 040	5.8040	5.7409	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.3122	+0.0897	946 - 298	6.3298	6.2265	-	-	-	-	-	-	-
South Korea	(Won)	1284.45	+29.22	409 - 480	1284.80	1265.70	-	-	-	-	-	-	-
Taiwan	(T$)	42.7614	+0.8779	501 - 726	42.7726	42.1899	-	-	-	-	-	-	-
Thailand	(Bt)	40.4563	+0.8325	313 - 812	40.4812	39.9430	-	-	-	-	-	-	-

†SDR rates per £ for Mar 2. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 3		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.1060	-0.177	040 - 080	10.2820	10.1040	10.2725	1.2	10.2505	1.3	10.132	1.5	106.8
Belgium	(BFr)	29.5350	-0.54	300 - 400	29.9600	29.5150	30.0825	-0.3	30.03	0.6	29.935	0.5	108.7
Denmark	(DKr)	5.6951	-0.108	933 - 968	5.7902	5.6906	5.8049	-0.2	5.8056	-0.1	5.8091	-0.1	106.5
Finland	(FM)	4.3853	-0.065	824 - 882	4.4774	4.3821	4.4685	0.5	4.4673	0.3	4.4688	0.0	85.8
France	(FFr)	5.0437	-0.0848	427 - 447	5.1160	5.0425	5.1293	-0.2	5.132	-0.3	5.138	-0.2	107.4
Germany	(DM)	1.4329	-0.0272	325 - 332	1.4550	1.4310	1.4587	1.2	1.456	1.1	1.4451	1.0	111.0
Greece	(Dr)	229.550	-3.1	500 - 600	232.190	228.500	235.15	-12.9	239.4	-11.8	257.15	-10.5	68.5
Ireland	(I£)	1.6124	+0.0324	121 - 129	1.6155	1.5888	1.5808	-0.4	1.5794	0.2	1.5768	0.2	-
Italy	(L)	1656.50	-5.43	500 - 800	1676.00	1644.00	1667.43	-4.0	1678.18	-3.9	1731.93	-4.2	68.9
Luxembourg	(LFr)	29.5350	-0.54	300 - 400	29.9600	29.5150	30.0825	-0.3	30.03	0.8	29.935	0.5	108.7
Netherlands	(Fl)	1.6090	-0.0286	087 - 097	1.6309	1.6012	1.6361	1.1	1.6332	1.1	1.6221	0.9	108.4
Norway	(NKr)	6.3365	-0.1176	350 - 380	6.4430	6.3313	6.4474	1.3	6.4366	1.1	6.4016	0.6	97.9
Portugal	(Es)	148.610	-3.74	860 - 960	151.600	148.800	153.075	-3.3	154.175	-4.0	158.95	-4.1	96.8
Spain	(Pta)	126.700	-2.02	650 - 750	128.530	126.650	129.015	-2.8	129.605	-2.8	132.97	-3.3	78.6
Sweden	(SKr)	7.2567	-0.0797	523 - 604	7.3582	7.2508	7.3437	-2.2	7.3749	-2.1	7.4994	-2.2	79.2
Switzerland	(SFr)	1.2123	-0.027	120 - 125	1.2337	1.2105	1.2368	2.4	1.2321	2.3	1.2116	2.2	109.4
UK	(£)	1.6248	+0.0354	244 - 251	1.6251	1.6022	1.6244	0.3	1.6239	0.4	1.6120	0.8	85.5
Ecu	-	1.2955	+0.021	950 - 960	1.2960	1.2787	1.2746	-0.1	1.2742	0.1	1.2716	0.2	-
SDR†	-	0.65960	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.0002	+0.0005	001 - 002	1.0002	1.0001	-	-	-	-	-	-	-
Brazil	(Cr)	0.8585	+0.008	570 - 600	0.8600	0.8570	-	-	-	-	-	-	-
Canada	(C$)	1.4008	-0.0048	005 - 010	1.4045	1.3989	1.4084	-2.4	1.4124	-1.9	1.4236	-1.3	80.5
Mexico	(New Peso)	6.0350	+0.11	100 - 600	6.0600	5.9900	5.9258	-0.2	5.9262	-0.1	5.9276	0.0	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	64.7
Pacific/Middle East/Africa													
Australia	(A$)	1.3526	-0.0028	523 - 532	1.3697	1.3522	1.3572	-1.6	1.3618	-1.9	1.3866	-2.3	84.8
Hong Kong	(HK$)	7.7324	+0.0007	321 - 326	7.7345	7.7321	7.7329	-0.2	7.7339	-0.1	7.7387	-0.1	-
India	(Rs)	31.6800	+0.1985	300 - 300	31.9000	31.5100	31.5675	-3.0	31.8125	-4.1	-	-	-
Israel	(Shk)	2.9662	-0.0173	637 - 687	2.9846	2.9632	-	-	-	-	-	-	-
Japan	(Y)	94.2150	-1.995	800 - 500	95.5800	94.1200	95.9	3.8	95.26	3.9	92.155	4.2	152.8
Malaysia	(M$)	2.5503	-0.0022	500 - 505	2.5513	2.5500	2.5505	0.9	2.548	1.0	2.53	0.9	-
New Zealand	(NZ$)	1.5654	-0.0121	649 - 662	1.5851	1.5649	1.5802	-2.1	1.5878	-2.0	1.6145	-2.3	-
Philippines	(Peso)	25.9000	+0.2	000 - 000	26.1000	25.7000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	-0.0001	502 - 505	3.7505	3.7502	3.7531	-0.8	3.7564	-0.6	3.768	-0.5	-
Singapore	(S$)	1.4460	-0.0027	457 - 462	1.4477	1.4463	1.4438	4.1	1.4384	2.8	1.415	2.3	-
S Africa (Com.)	(R)	3.5708	-0.0335	700 - 715	3.5968	3.5695	3.6178	-4.5	3.6525	-5.3	3.8218	-6.0	-
S Africa (Fin.)	(R)	3.8850	-0.03	750 - 950	3.8950	3.8700	3.9425	-8.4	3.9925	-7.9	4.225	-7.9	-
South Korea	(Won)	790.550	+0.6	500 - 600	791.500	789.900	792.75	-4.8	796.25	-3.3	814.75	-3.2	-
Taiwan	(T$)	26.3188	-0.033	175 - 200	26.3400	26.3175	26.3716	-0.8	26.4118	-0.9	-	-	-
Thailand	(Bt)	24.9000	-0.03	900 - 100	24.9100	24.8850	24.9425	-0.6	24.9565	-0.4	24.9825	-0.2	-

†SDR rate per $ for Mar 2. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Mar 2. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

March 3	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	6	5¾	5¾	5⅞	6¼	7.40	4.50	-
week ago	6	5¾	5¾	5⅞	6¼	7.40	4.50	-
France	5⅞	6⅛	6½	6¾	7	5.00	-	6.40
week ago	5⅞	6⅛	5⅞	6¼	6¾	5.00	-	6.40
Germany	4.88	4.95	5.05	5.23	5.68	6.00	4.50	4.85
week ago	4.88	4.95	5.05	5.23	5.68	6.00	4.50	4.85
Ireland	5⅛	5¾	6¼	6⅝	7⅛	-	-	6.25
week ago	5⅛	5¾	6¼	6⅝	7⅛	-	-	6.25
Italy	8⅞	10⅛	10⅛	10½	11⅛	-	7.50	8.35
week ago	8⅛	10⅛	9⅞	10	10¾	-	7.50	8.35
Netherlands	4.84	5.03	5.14	5.33	5.77	-	5.25	-
week ago	4.84	5.03	5.13	5.33	5.77	-	5.25	-
Switzerland	3⅛	3⅞	3⅞	4⅛	4⅛	6.625	3.50	-
week ago	3⅛	3⅞	3⅞	4⅛	4½	6.625	3.50	-
US	5⅞	6	6⅛	6⅜	6⅝	-	5.25	-
week ago	5⅞	6	6⅛	6⅜	6⅝	-	5.25	-
Japan	2⅛	2⅛	2¼	2⅜	2⅛	-	1.75	-
week ago	2⅛	2⅛	2¼	2⅜	2⅛	-	1.75	-
$ LIBOR FT London								
Interbank Fixing	-	6⅛	6¼	6⅛	6⅝	-	-	-
week ago	-	6⅛	6¼	6⅛	6⅝	-	-	-
US Dollar CDs	-	5.94	6.04	6.24	6.64	-	-	-
week ago	-	5.94	5.98	6.17	6.57	-	-	-
SDR Linked Ds	-	4⅛	4⅛	4⅝	4⅞	-	-	-
week ago	-	4⅛	4½	5⅛	5⅛	-	-	-

ECU Linked Ds mid rates: 1 mth: 6⅛; 3 mths: 6¼; 6 mths: 6½; 1 year: 7. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Mar 3	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	6 - 5⅞	5⅞ - 5⅞	5¾ - 5⅝	5⅞ - 5⅞	5⅞ - 5¾	6⅜ - 6¼
Danish Krone	5⅞ - 5¾	5¾ - 5½	5¾ - 5½	6 - 5⅞	6⅛ - 6⅛	6⅞ - 6⅝
D-Mark	4⅞ - 4¾	4⅞ - 4⅞	5 - 4⅞	5⅛ - 5⅛	5⅜ - 5⅜	5⅞ - 5⅝
Dutch Guilder	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 5⅛	5⅛ - 5⅛	5⅜ - 5⅜	5⅞ - 5⅞
French Franc	5⅜ - 5¼	5⅞ - 5⅞	5⅝ - 5½	5⅞ - 5¾	6¼ - 6⅛	6¾ - 6⅝
Portuguese Esc.	9 - 8⅞	8 - 8⅞	8⅞ - 8⅞	10½ - 10¼	10¾ - 10½	11⅜ - 11
Spanish Peseta	8⅞ - 8⅛	8⅜ - 8⅛	8⅝ - 8½	8⅞ - 8⅞	9⅞ - 9⅞	10¼ - 10
Sterling	6 - 5¾	6⅛ - 6	6⅞ - 6⅞	6⅞ - 6⅝	7⅛ - 7⅛	7⅞ - 7⅞
Swiss Franc	3⅞ - 3⅞	3¾ - 3⅝	3⅝ - 3½	3⅞ - 3¾	4⅛ - 3⅞	4⅞ - 4⅞
Can. Dollar	8⅛ - 7⅞	8⅛ - 7⅞	8⅛ - 8⅛	8⅞ - 8⅛	8⅞ - 8⅞	8⅞ - 8⅞
US Dollar	6 - 5⅞	6⅛ - 5⅞	6⅛ - 6	6¼ - 6⅛	6⅞ - 6⅝	6⅞ - 6¾
Italian Lira	10½ - 9	10⅛ - 9⅞	10⅛ - 9⅞	10⅛ - 9⅞	10½ - 10⅜	11⅛ - 11
Yen	2¼ - 2⅛	2¼ - 2⅛	2⅞ - 2⅞	2⅜ - 2¼	2⅜ - 2¼	2⅞ - 2⅞
Asian $Sing	2⅛ - 2	1⅞ - 1⅞	2⅛ - 2⅛	2⅜ - 2⅜	3⅛ - 3¼	4⅛ - 3⅞

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.74	93.72	-0.02	93.74	93.70	44,815	357,131
Jun	93.44	93.40	-0.04	93.45	93.33	117,882	464,029
Sep	93.15	93.09	-0.07	93.16	93.02	147,058	306,791

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	94.24	-	-	-	1,680	48
Jun	93.95	93.95	-0.04	93.98	93.90	2,135	13,858
Sep	93.67	93.63	-0.05	93.67	93.61	835	6,856

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 3		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.29	17.08	4.852	2.099	5609	5.448	21.45	504.2	428.8	24.57	4.104	2.084	4.742	3.385	318.9	2.614
Denmark	(DKr)	51.85	10	8.856	2.516	1.088	2908	2.825	11.12	261.4	222.4	12.74	2.128	1.081	2.459	1.756	165.4	1.355
France	(FFr)	58.56	11.29	10	2.841	1.229	3284	3.190	12.56	295.2	251.2	14.38	2.403	1.220	2.776	1.982	186.7	1.530
Germany	(DM)	20.61	3.975	3.520	1	0.433	1156	1.123	4.420	103.9	88.40	5.064	0.846	0.430	0.977	0.698	65.72	0.539
Ireland	(I£)	47.65	9.189	8.137	2.312	1	2672	2.596	10.22	240.2	204.4	11.71	1.955	0.993	2.259	1.613	151.9	1.245
Italy	(L)	1.783	0.344	0.304	0.087	0.037	100.	0.097	0.382	8.989	7.648	0.438	0.073	0.037	0.085	0.060	5.686	0.047
Netherlands	(Fl)	18.36	3.540	3.135	0.891	0.385	1029	1	3.936	92.54	78.73	4.510	0.753	0.383	0.870	0.621	58.53	0.480
Norway	(NKr)	46.63	8.992	7.963	2.262	0.979	2615	2.540	10	235.1	200.0	11.46	1.914	0.972	2.211	1.578	148.7	1.219
Portugal	(Es)	19.83	3.825	3.387	0.962	0.416	1112	1.081	4.254	100.	85.08	4.874	0.814	0.413	0.940	0.671	63.25	0.518
Spain	(Pta)	23.31	4.496	3.982	1.131	0.489	1308	1.270	5.000	117.6	100.	5.729	0.957	0.486	1.105	0.789	74.34	0.609
Sweden	(SKr)	40.70	7.848	6.950	1.975	0.854	2282	2.217	8.728	205.2	174.6	10	1.670	0.848	1.930	1.377	129.8	1.064
Switzerland	(SFr)	24.37	4.699	4.162	1.182	0.511	1367	1.328	5.226	122.9	104.5	5.988	1	0.508	1.155	0.825	77.70	0.637
UK	(£)	47.98	9.253	8.194	2.328	1.007	2691	2.614	10.29	241.9	205.8	11.79	1.969	1	2.275	1.624	153.0	1.254
Canada	(C$)	21.09	4.067	3.602	1.023	0.443	1183	1.149	4.523	106.3	90.48	5.182	0.865	0.440	1	0.714	67.25	0.551
US	($)	29.54	5.696	5.046	1.433	0.620	1657	1.610	6.336	149.0	126.7	7.260	1.212	0.616	1.401	1	94.21	0.772
Japan	(Y)	31.36	6.048	5.356	1.522	0.658	1759	1.708	6.725	158.1	134.5	7.706	1.287	0.654	1.487	1.061	100.	0.820
Ecu		38.26	7.379	6.534	1.856	0.803	2146	2.085	8.206	192.8	164.1	9.402	1.570	0.797	1.814	1.295	122.0	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	0.6944	0.7015	+0.0085	0.7035	0.6879	45,438	92,037
Jun	0.6950	0.7038	+0.0087	0.7060	0.6905	7,906	15,437
Sep	0.6944	0.7058	+0.0089	0.7060	0.6934	247	1,111

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	0.8171	0.8326	+0.0143	0.8330	0.8120	30,234	44,820
Jun	0.8225	0.8380	+0.0148	0.8375	0.8185	3,858	7,182
Sep	0.8260	0.8428	+0.0150	0.8420	0.8250	18	196

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	1.0518	1.0637	+0.0128	1.0683	1.0468	50,201	61,897
Jun	1.0638	1.0754	+0.0131	1.0798	1.0580	6,937	17,593
Sep	1.0750	1.0871	+0.0134	1.0910	1.0750	158	1,008

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	1.6134	1.6288	+0.0148	1.6312	1.6020	23,677	51,953
Jun	1.6060	1.6272	+0.0148	1.6296	1.6020	5,715	5,883
Sep	1.6130	1.6238	+0.0150	1.6240	1.6050	1	14

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Mar	CALLS Apr	CALLS May	PUTS Mar	PUTS Apr	PUTS May
1.500	12.64	-	-	-	-	-
1.525	10.15	10.09	10.12	-	0.01	0.15
1.550	7.68	7.72	7.89	-	0.15	0.39
1.575	5.25	5.58	5.89	-	0.42	0.82
1.600	2.95	3.65	4.12	0.16	0.98	1.52
1.625	1.18	2.18	2.68	0.88	1.83	2.54

Previous day's vol., Calls 6,472 Puts 13,618. Prev. day's open int., Calls 271,628 Puts 340,253

■ Pound in New York

Mar 3	--Close--	--Prev. close--
£ spot	1.6285	1.6135
1 mth	1.6291	1.6131
3 mth	1.6281	1.6120
1 yr	1.6175	1.6000

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Emerging Markets page in today's edition.

BANK RETURN

BANKING DEPARTMENT	Wednesday March 1, 1995	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	543,214,050	-366,815,918
Bankers deposits	1,795,091,851	+263,752,970
Reserve and other accounts	3,917,919,608	+680,597,129
	6,270,778,509	+577,534,183
Assets		
Government securities	1,423,708,456	-472,921,864
Advance and other accounts	4,321,045,614	+2,198,360,678
Premise, equipment and other secs	518,183,734	-1,146,202,412
Notes	7,672,323	-1,707,150
Coin	168,382	+4,731
	6,270,778,509	+577,534,183
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	18,192,327,677	+81,707,150
Notes in Banking Department	7,672,323	-1,707,150
	18,200,000,000	+80,000,000
Assets		
Other Government securities	12,103,804,554	-946,476,037
Other Securities	6,096,195,446	+1,026,476,037
	18,200,000,000	+80,000,000

UK INTEREST RATES

LONDON MONEY RATES

Mar 3	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5⅝ - 4	5⅞ - 5½	6⅛ - 6⅛	6¾ - 6⅝	7⅛ - 7	7¾ - 7⅝
Sterling CDs	-	-	6⅞ - 6⅞	6⅞ - 6⅞	7 - 6⅞	7⅞ - 7⅞
Treasury Bills	-	-	6¼ - 6⅛	6⅞ - 6⅝	-	-
Bank Bills	-	-	6¼ - 6⅛	6⅞ - 6⅞	6⅞ - 6¾	-
Local authority deps.	6⅛ - 6⅛	6⅛ - 6	6⅛ - 6⅛	6¾ - 6⅝	7⅛ - 6⅞	7⅞ - 7⅞
Discount Market deps	5½ - 4	5⅞ - 5¾	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from February 2, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	5¾	5¾	6	6¼

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount 6.1282pc. ECGD fixed rate Stg. Export Finance. Make up day Feb 28, 1995. Agreed rate for period Mar 26, 1995 to Apr 25, 1995, Schemes II & III 0.05pc. Reference rate for period Feb 1, 1995 to Feb 28, 1995, Schemes IV & V 0.795pc. Finance House Base Rate 7pc from Mar 1, 1995

BANK OF ENGLAND TREASURY BILL TENDER

	Mar 3	Feb 24		Mar 3	Feb 24
Bills on offer	£700m	£700m	Top accepted rate	6.1366%	6.1969%
Total of applications	£2448m	£3350m	Ave. rate of discount	6.1282%	6.1884%
Total allocated	£700m	£700m	Average yield	6.2232%	6.2853%
Min. accepted bid	£98.470	£98.455	Offer at next tender	£700m	£700m
Allotment at min. level	92%	96%	Min. accept. bid 182 days	-	-

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	*Roxburghe Guarantee Corporation Ltd is no longer authorised as a banking institution.	10
Allied Trust Bank	6.75	Exeter Bank Limited	7.75	Royal Bk of Scotland	6.75
AIB Bank	6.75	Financial & Gen Bank	7	Singer & Friedlander	6.75
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	●Smith & Williamson Secs	6.75
Bank of Baroda	6.75	Girobank	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	●United Bk of Kuwait	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	Unity Trust Bank Plc	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Western Trust	6.75
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Whiteaway Laidlaw	6.75
Bank of Scotland	6.75	●Hill Samuel	6.75	Yorkshire Bank	6.75
Barclays Bank	6.75	C. Hoare & Co	6.75		
Brit Bk of Mid East	6.75	Hongkong & Shanghai	6.75	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75	* In administration	
Citibank NA	6.75	●Leopold Joseph & Sons	6.75		
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Meghraj Bank Ltd	6.75		
Coutts & Co	6.75	Midland Bank	6.75		
Credit Lyonnais	6.75	* Mount Banking	6.75		
Cyprus Popular Bank	6.75	NatWestminster	6.75		
		●Rea Brothers	6.75		

FT GOLD MINES INDEX

	Mar 3	% chg since 30/12/94	Mar 2	Mkt Cap $bn	% of Gold Mines	Gross div yield %	52 week High	52 week Low
Gold Mines Index (34)	1686.31	-14.7	1703.25	41.74	100.00	2.30	2337.90	1637.91
Regional Indices								
Africa (16)	2524.36	-20.9	2540.50	13.41	32.12	5.45	3711.87	2304.45
Australasia (7)	1942.24	-20.9	1950.23	4.99	11.95	0.64	2861.49	1788.20
North America (11)	1404.28	-9.1	1423.11	23.34	55.93	0.80	1911.21	1348.18

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Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92.
Predecessor Gold Mines Index: Feb 29 ; 189.2; day's change -2.9 points; Year ago: 210.8
PLEASE NOTE: Predecessor Gold Mines Index discontinued 28/2/95.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994/95 High	1994/95 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§10	F.P.	16.5	13¼	12¼	Bath Press	12½		-	-	-	-
-	F.P.	28.5	120	123	Colleagues	126		-	-	-	-
§125	F.P.	21.1	131	128	GET Group	129		N-	-	-	11.1
-	F.P.	22.1	87	84	Inv Tst of Inv Tsts	85		-	-	-	-
-	F.P.	2.91	59	56	Do. Warrants	58		-	-	-	-
-	F.P.	28.2	55	48¼	Lazard Birla India	50½	+¼	-	-	-	-
-	F.P.	3.04	32½	28	Do Warrants	29¼	-¼	-	-	-	-
35	F.P.	22.1	36	34	MCIT S Cap	34		-	-	-	-
35	P.P.	23.4	38	36	MCIT S Inc	36		-	-	-	-
150	F.P.	15.8	160	150	Photobition	153		RN6.0	2.0	4.9	11.1
-	F.P.	4.40	11¼	10½	Wessex Trust	11		-	-	-	-
145	F.P.	63.8	176	170	Zotefoams	176	+2	W4.65	2.1	3.3	17.6

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1994/95 High	1994/95 Low	Stock	Closing price p	+or-
-	P.P.	-	196pm	165pm	Cadbury Schws Cv Ln	194pm	+2
335	P.P.	-	73pm	64pm	Dalgety Cv Ln 1995	69pm	-4
57	Nil	29/3	22pm	13pm	Euro Colour	21pm	-1
110	Nil	-	1pm	¼pm	Natl. Home Lns.	¼pm	
80	Nil	15/3	4pm	1pm	‡Shorco	1pm	-½
50	Nil	10/4	4pm	2pm	Torex Hire	2½pm	

UK GILTS PRICES

[illegible]

STOCK INDICES

[illegible]

CONTRACTS & TENDERS

REPUBLIC OF LEBANON
The Rashid Karami International Fair
Board of Directors

ANNOUNCEMENT

For Prequalification
To Tender For (BOT) Contract to Finance, Rehabilitate, Build, Operate and Transfer
The Rashid Karami International Fair Complex in Tripoli - Lebanon

The Government of Lebanon, represented by the Board of Directors of the Rashid Karami International Fair (RKIF), ANNOUNCES that the period for submission of prequalification documents by applicants has been extended until the 10th of April 1995.

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LEGAL NOTICES

INSOLVENCY ACT AND RULES 1986
G T PENSIONS MANAGEMENT LIMITED
(IN MEMBERS' VOLUNTARY LIQUIDATION)

[illegible]

THE INSOLVENCY ACT 1986
P.R. ELSON (UNDERWRITING AGENCY) LIMITED
G.W. HUTTON & CO. (UNDERWRITING AGENCY) LIMITED

[illegible]

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

GUERNSEY (SIB RECOGNISED)

Lazard Fund Mngrs - Contd.

Lloyds Intl Money Market Fund Ltd

GUERNSEY (REGULATED)(**)

Merrill Lynch Guernsey

Nikko Capital Mngt (Europe) Ltd

Rothschild Asset Mngmt (CI) Ltd

IRELAND (SIB RECOGNISED)

Singer & Friedlander Inv Funds Ltd - Contd.

IRELAND (REGULATED)(**)

Stellar Fund Plc

Ulster Bank Investment Services

Value Express Fund Plc

Yellow Sea Investment Company PLC

Yuki Korea Fund

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Citibank (CI) Ltd 'Citifunds'

Citibank N.A.

Concerto Ltd

Coutts & Co (Jersey) Fund Managers Ltd

LUXEMBOURG (SIB RECOGNISED)

Commercial Union Luxembourg SA - Contd.

Cravasia Group (u)

Lloyds Bank Luxembourg

LUXEMBOURG (REGULATED)(**)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 71) 873 4378.

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

	Selling Price	Buying Price	Yield Gross	City-Line
Wellington Fd Mngrs (Bermuda) Ltd				
Intnl Growth Fd	$14.21	14.92	-	45995
Wells Fargo U.S. IT Fund				
Worldwide Limited				
NAV Dec 30		$79.23	-	46693
Xiphias International Investment Fd Ltd				
Yamaichi Capital Management (Guernsey) Ltd				
Thai Inv Fund		$20.81	-	40493

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars.
Yields % allow for all buying expenses.
Prices of certain older insurance linked plans subject to capital gains tax on sales.
(**) Funds not SIB recognised. The regulatory authorities for these funds are:
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(*) - 0001 to 1100 hours
(‡) - 1101 to 1400 hours
(†) - 1401 to 1700 hours
(#) - 1701 to midnight.
E - Exit charge on sale of units.
C - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
h - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
u - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
$ - Offered price includes all expenses except agent's commission.
e - Previous day's price.
▣ - Guernsey gross.
♦ - Yield before Jersey tax.
† - Ex-subdivision.
‡ - Only available to charitable bodies
◊ - Yield column shows annualised rates of NAV increase.
xd - Ex-dividend.

LONDON SHARE SERVICE

BANKS, MERCHANT

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Barclays 8pc Cm 2nd Prf		901₂	-48.5	8%	–	Jan Dec	14.11	1757
9¼pc Non-Cum Prf		[illegible]	-96.0	9¼%	–	Jan Jul	14.11	1421
Cater Allen		425	-2.3	28.3	1.6	Jan Jul	12.12	2081
Close Bros		231	-.9	7.5	2.9	Apr Oct	3.10	2165
Gerrard & Nat		403	-8.0	24.0	1.3	Jul Dec	7.11	2686
Hambros		211	-8.4	13.0	1.1	Aug Dec	28.11	2812
7½pc Cv Pf		[illegible]	-2.5	7½%	–	Oct Apr	20.2	4068
Joseph (L)		[illegible]	-1.3	17.85	1.9	Sep Dec	5.12	[illegible]
King & Shaxson		[illegible]	-5.2	9.0	1.1	Jun Jul	19.12	[illegible]
Kleinwort Benson		572	-5.5	21.5	2.1	May Oct	27.2	3102
Rea Bros		80	-3.2	0.95	3.2	May Oct	29.8	3785
Schroders		1446	-4.5	18.5	5.8	May Oct	12.9	3939
N/V		1305	-3.5	18.5	5.9	May Oct	12.9	3941
Singer & Fried		[illegible]	-1.2	3.13	2.8	Nov Jun	10.9	4026
Union		75	-10.1	3.0	♦	Apr Oct	29.8	4353
Warburg (SG)		661	-5.2	22.0	2.4	Jul Dec	14.11	4425
Wintrust		215	-2.3	10.6	1.5	Oct Mar	20.2	4524

BANKS, RETAIL

[illegible]

BREWERIES

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

BUILDING MATS. & MERCHANTS - Cont.

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

INVESTMENT COMPANIES - Cont.

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL EXPLORATION & PRODUCTION - Cont.

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		£29	—	0376c	1.6	Oct Apr	3'93	–
Barlow	✣	£9¼	—	058c	2.8	Jan Jul	12.12	–
Gold Flds Prop R.		149xs	—	090c	♦	Feb Sep	1'94	–
NK Props.		85	—	067.1c	–	Feb Sep	10'93	–
SASOL	♥	477	—	078c		Oct	9'93	–
SA Brews	†	£14¼	—	0163c	2.2	Jun Dec	21.11	–
Tiger Oats		176	9.9	085c	2.8	Jan Jul	12.12	–
Tongaat-Hulett	††	762	—	080c	2.4	Feb Aug	1'94	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1994. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. N Figures based on IIMR "Headline Earnings". P Figures based on prospectus or other official estimates for 1994. S Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Western Areas (Extractive Inds), St Paul Companies (Insurance), Pentex Oil (Oil Explm) and Hartlepool Water (Water). Deletions: American Express (Americans).

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An International service is available for callers outside the UK, annual subscription £250 stg.

Call 0171-873 4378 (+44 171 873 4378, International) for more information on FT Cityline.

4 pm close March 3

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14 1/8	13	AAR	0.40	3.8	24	361	13 5/8	13 1/4	13 1/2	-1/8
22 1/8	19 1/4	ALPharmaA	0.18	0.9	47	382	20 7/8	20	20 3/4	+3/4
38 1/4	35	AMP	0.92	2.4	21	2228	37 7/8	37 1/8	37 3/4	+1/8
62 3/4	53 1/8	AMR			27	7449	62 1/8	61 1/2	61 1/2	-1/4
46 3/8	41 7/8	ASA	1.71	4.0	38	681	43	42 1/2	42 5/8	-1/8
36	30 3/4	AbbotL	0.64	2.4	10	7410	35 5/8	35	35 3/8	+1/4
14	12 1/2	Abitibi Pr	0.50	2.9	11	64	12 3/4	d12 1/8	12 3/4	+1/4
24 3/8	23 1/8	ABM Ind	0.60	2.6	14	78	23 3/4	23 1/8	23 1/4	+1/8
16 5/8	14 1/2	Acptncsin			11	51	15 1/2	15 3/8	15 3/8	-1/8
25 7/8	21 7/8	ACE Ltd	0.44	1.8	7	71	24	24	24	
9 3/4	9 1/8	ACM Gvt In x	0.60	9.9	8	252	9 1/4	d9	9 1/8	-1/8
7 1/2	7 1/8	ACM OvOpp x	0.60	9.3		150	7 3/8	d7 1/8	7 1/8	
7 1/2	6 5/8	ACM Gvt Sp x	0.75	11.1		311	6 3/4	d6 5/8	6 3/4	
8 5/8	7 7/8	ACM Gvt Se x	0.90	11.2		307	8	d7 7/8	8	+1/8
8 1/2	7 5/8	ACM Man x	1.08	13.7		259	8	7 7/8	7 7/8	
7 5/8	7 1/8	ACM Mangd x	0.72	8.8		103	7 1/2	7 3/8	7 3/8	
16 1/4	10 1/4	AcmeCle	0.48	3.4	8	452	14 3/8	14 1/4	14 1/4	-1/8
21 1/2	12 3/8	Acme Elect			20	215	18	17 7/8	18	
24 1/2	21 3/8	Acordia	0.72	2.1	17	0	33 5/8	33 1/4	33 5/8	+1/4
11 3/8	9 3/8	Actava	0.36	3.6	3	208	10 3/8	10 1/8	10 1/8	-1/8
16 3/4	12 1/4	Acuson			20	275	12 5/8	d12 1/4	12 1/2	+1/4
16 5/8	15 5/8	Adams Expr	0.36	2.2	0	166	16 3/8	16 1/4	16 1/4	-1/4
64 1/2	53	Ad Micro	3.00	4.8		151	62 1/2	60 1/2	62 1/2	+3 1/2
32 1/4	25	AdvMic	3.00	8.4	8	14038	31 3/4	29 5/8	31 3/4	+2
6 3/8	5	Advest Grp	0.10	2.7	29	27	6	5 7/8	5 7/8	
10 1/4	16 1/2	Advo Inc	0.10	0.6	15	543	10 7/8	18 1/2	18 3/4	-1/8

Continued on next page

4 pm close March 3

NYSE COMPOSITE PRICES

Continued from previous page

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
48⅛	54¼	Salomn	0.64	1.8	6	1156	35¼	d34¼	35	-½
21⅝	19⅛	SaDgGE	1.56	7.4	10	279	21¼	21	21⅛	
9⅞	8	SantaFeERe	0.16	1.7	154	563	9¼	9⅛	9¼	+⅛
12¾	9	SFeGd			22	4366	10⅝	10½	10½	-¼
36¾	33¼	SFePPipe	2.80	7.8	9	39	36⅝	36⅛	36⅛	-⅛
21¾	17⅛	SaraLee	0.18	0.5	20	3161	21¼	20⅞	21⅜	+⅛
27⅛	24¼	SaraLee a	0.68	2.7	52	5865	25¾	25⅛	25⅝	-¼
45⅛	42	Scana Corp	2.88	6.6	17	280	43½	43⅛	43⅜	-¾
[illegible]										

NASDAQ NATIONAL MARKET

4 pm close March 3

[illegible]

AMEX COMPOSITE PRICES

4 pm close March 3

[illegible]

FT GUIDE TO THE WEEK

MONDAY 6

Copenhagen summit opens

Tha poor may no longer be always with us. That, at least, is one of the aims of the United Nations world summit for social development which opens in Copenhagen (to March 12). More than 130 heads of government are expected to turn up, but not US President Bill Clinton nor UK Prime Minister John Major. The leaders will be joined by thousands of lobbyists and the world's media to discuss three issues: the "eradication" of extreme poverty, the expansion of "productive" employment, and social integration in both developing and developed countries.

Many governments are being cautious, if not muted, about what the summit may achieve, but the event will focus attention on the issues.

EU-Turkish customs union

European Union foreign ministers begin a two-day meeting in Brussels to conclude and sign a deal on a customs union with Turkey. Greece has long blocked the deal, but on Friday agreed to lift its veto in return for a firm promise of eventual EU membership for Cyprus.

Kim Young Sam in Bonn

Kim Young Sam, the South Korean president, holds talks with Germany's President Roman Herzog and Chancellor Helmut Kohl, at the start of a three-day visit. He is the first of a string of international leaders who will file through Bonn this week.

Horn goes east

Hungary's prime minister, Gyula Horn, embarks on a three-day visit to Russia and Kazakhstan, his first to the former Soviet Union since taking over the post last July. Mr Horn, who will be accompanied by the foreign, industry and agriculture ministers, is expected to discuss bilateral and trade relations as well as Nato expansion in central Europe.

Pilgrimage to Catalonia

The Party of European Socialists begins a three-day conference in Barcelona. Four heads of government, including Spain's Felipe González, and six European commissioners are expected to attend, as are UK Labour leader Tony Blair and French presidential candidate Lionel Jospin. It is the party's second conference since it was founded three years ago.

Talks in engineering strike

The IG Metall union and employers in Germany's engineering industry are due to resume talks at 2pm outside Munich to try to hammer out a wage rise acceptable to both sides, as the first strike in the engineering industry since 1984 enters its 11th day.

The union wants 6 per cent more money, while the employers have yet to say how much they can pay. It insists that before they do so, the union must agree to discuss working hours and other changes which mean extra costs for bosses.

No man is an island: UK bosses, particularly chiefs of privatised utilities, have been criticised for overpaying themselves, while staff wages have been cut

UK faces postal strike

Post offices in 20 areas of the UK, including London, Glasgow and Bristol, are expected to be hit by a 24-hour strike.

Saleroom

More than 24,000 pieces of blue and white Chinese export porcelain, recently salvaged from the bottom of the sea, are on offer at Christie's in Amsterdam today and tomorrow. They come from the Diana, which foundered off Malacca in 1817. The porcelain, destined for India, is in excellent condition and can be acquired for between £50 and £4,000 a lot.

FT Surveys

World Tyre Industry and Credit Management.

Holidays

Cyprus, Ghana (Independence Day), Greece.

TUESDAY 7

Keating comes to Europe

Paul Keating, Australia's prime minister, and his accompanying trade mission begin the first full day of a five-day trip in Germany, where he will hold talks with Germany's president, Roman Herzog, and Chancellor Helmut Kohl.

Mr Keating hopes to foster closer links between Germany and Australia. He will also lead a trade mission to the CeBit computer fair in Hanover. Before going on to the Netherlands at the weekend, he is scheduled to visit a handful of Berlin landmarks. On Sunday, he will address the United Nations social summit in Copenhagen.

WEDNESDAY 8

Dini flies to Bonn

Italy's caretaker prime minister, the technocrat Lamberto Dini, arrives in Bonn for a one-day visit to Germany at the invitation of his counterpart, Chancellor Helmut Kohl. Mr Dini will be given a much higher profile than his predecessor, Silvio Berlusconi. Mr Dini will meet Chancellor Kohl, President Roman Herzog and the finance minister, Theo Waigel.

Thai PM visits Germany

Chuan Leekpai, Thailand's prime minister, arrives for a three-day visit to Germany to meet leading politicians and extend the close economic links that exist between the two countries. He will also visit Berlin before going on to the UN conference on social development in Copenhagen.

Greek presidential vote

Costis Stefanopoulos, 69, a former conservative cabinet minister, is expected to be elected as Greece's new president in a third and final parliamentary ballot. Mr Stefanopoulos, who enjoys the support of the governing Panhellenic Socialist Movement (Pasok) and the nationalist Political Spring party, should garner the 180 votes needed to succeed veteran statesman Constantine Karamanlis (above), 88 today, in the mainly ceremonial post.

CeBit opens in Hanover

More than 680,000 computers buffs from around the world will crowd into Hanover, Germany, for the eight-day CeBit information and communications technology fair (to March 18). The fair, ranked as the world's leading trade show for developments in the information technology industry, has attracted a record 6,000 exhibitors from 59 countries to the 318 sq m exhibition site just outside town.

Knights clash in the Canaries

Vishy Anand, 25, of India, and Gata Kamsky, 20, of the US, meet in Las Palmas, Canary Islands, (to March 25) to decide who challenges Gary Kasparov for the Professional Chess Association world championship. Kamsky, who emigrated from Russia as a schoolboy, is the first American since Bobby Fischer to go so far and has already eliminated the Indian from the rival Fide title series. But Kasparov says that Anand, the speediest player on the world circuit, is "stronger".

Holidays

Belarus, Georgia, Russia, Uganda, Ukraine (Women's Day); Syria (Revolution Day).

THURSDAY 9

Vote due on Italy's budget

Italy's chamber of deputies begins discussion of the L20,000bn ($12bn) mini-budget with a vote due today. The senate is due to have voted on the measures on Tuesday. The introduction of the financial package, needed to hold the 1995 budget deficit to its targeted 8 per cent of GDP, is one of the four objectives set by premier Lamberto Dini when he accepted his limited mandate in January.

On the trail of Europol

European Union home affairs ministers meet in Brussels to discuss progress on the planned European policy agency (Europol) with powers to collect and analyse criminal intelligence outside the control of national police forces. The hope is to sign a deal at the European summit in Cannes in June.

EU's sins of emission

The European Union's environment ministers assemble in Brussels for their last ministerial-level meeting before the UN Climate Change summit later this montb in Berlin. Ministers will be preparing draft conclusions on what Europe bopes to achieve in Berlin in terms of cutting carbon dioxide emissions. Also on the agenda are further talks on new EU rules on air, land and sea emissions from industry, as well as discussions on a framework European directive on air quality.

Geneva motor show opens

The harbinger of spring for the world auto industry opens to trade and public visitors (to March 19). European carmakers are slowly recovering from the deep recession of 1993, but forecasts still suggest only modest growth this year.

Geneva will witness the rebirth in Europe of the two-seater sports car. Rover is reviving the MG marque in earnest 15 years after its demise in 1980, with the unveiling of the MGF mid-engined sports car, while Fiat has joined the battle to dethrone the Mazda MX-5 with its snappy Barchetta roadster.

Rolls-Royce and Ferrari are set to steal the show with new production cars, while the volume carmakers test out minicar concept studies and show they are serious about multi-purpose vehicles.

Tokyo financial scandal

Japan's Lower House Budget Committee is to summon the former presidents of two bankrupt Tokyo-based credit unions to testify on allegations of illicit lending. The summonses of Harunori Takahashi, former president of Tokyo Kyowa Credit Association, and Shinsuke Suzuki, former president of Anzen Credit bank, bave been demanded by all political parties.

Last week, the Tokyo Metropolitan Assembly, the local authority responsible for regulating the two credit unions, voted against taking part in a Bank of Japan rescue plan. The political opposition has mounted a campaign to vote down the rescue, on the grounds that failure of the two institutions does not threaten the health of the financial system. Yet failure of the plan would be a serious challenge to the authority of Masayoshi Takemura, the finance minister, and cause panic among the credit unions' depositors.

Beano for British inventors

Britain's backyard boffins temporarily leave their workshops to attend the Great British Innovation and Inventions Fair at the National Exhibition Centre in Birmingham (to March 12). Among "the latest prototypes that might become the money-spinning products of tomorrow" are a portable bicycle case, a dog mess clearer on a stick, and a device that lights up on the back of your car if the vehicle behind gets too close.

FRIDAY 10

Pact signing on extradition

European Union justice ministers are expected to sign a convention to make it easier to extradite suspected criminals between the member states. The meeting is part of an effort to step up co-operation in tackling cross-border crime in the single European market.

Blair in the lions' glen

Britain's opposition Labour party holds its two-day Scottish conference in Inverness, at which Tony Blair, party leader, will give a speech. A debate follows on his plans to rewrite Clause 4 of tha party's constitution, which calls for public ownership of the means of production. Mr Blair expects to be mauled by die-hard leftists but, whatever the outcome, the national party is expected to approve a new clause at the special conference called for that purpose on April 29.

FT Survey

European Business Property.

SATURDAY 11

Iraq hosts oil conference

This weekend Iraq holds its first international oil conference since the end of the Gulf War. Executives or representatives from a number of oil companies expect to hear details of Iraq's future policy towards foreign investment in the oil sector if the United Nations relaxes sanctions.

The conference comes just weeks before the United Nations Security Council will hear whether Iraq has complied with UN demands to dismantle its capacity to produce weapons of mass destruction. The US government opposes any early action to end the oil export embargo, saying Iraq still poses a threat to its neighbours. But France and Russia say the embargo could be lifted or suspended if a favourable report is received.

SUNDAY 12

Major visit to Middle East

British Prime Minister John Major is due to arrive on a three-day visit to Israel, Jordan, the West Bank and Gaza.

Tourism up for discussion

Annual general meeting of US-based World Travel and Tourism Council to be held in Singapore.

Compiled by Patrick Stiles and Shelley Wood. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Tuesday: With the German currency strengthening significantly recently on the back of a global flight to quality, the markets will have a new batch of data about the German economy to feast on. Jobs figures due today are expected to show further small falls in unemployment. Meanwhile, retail sales data, due in the middle of the week, should show that consumer spending rose modestly in January, even though it remains weak compared with industrial growth.

Wednesday: Kenneth Clarke, UK chancellor and Eddie George, governor of the Bank of England, are expected to leave UK interest rates unchanged when they hold their regular monetary meeting today. Meanwhile, UK output data is expected to show continued, modest growth.

Thursday: German gross domestic product figures are expected to provide further evidence that recovery is now firmly under way. However, some economists expect the quarterly rate to show a small slow down in the pace of growth.

Friday: The US payrolls are likely to provide further evidence that strong growth is leading to steady joh creation.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	US	Jan home completions	-	1.35m
March 6	Canada	Indust'l cap utilisation, 4th qtr	83.5%	82.9%
Tues	US	Johnson Redbook, w/e March 4	-	-2.5%
March 7	US	Jan consumer credit	$8.5bn	$7.4bn
	Germany	Feb unemployment rate, West†	-5,000	-3,000
	Germany	Jan employment rate, West†	-3,000	-8,000
	Germany	Feb vacancies, West	-	11,000
	Germany	Feb short time, West	-	22,000
	Germany	Feb unemployment rate, East	-	80,000
	France	Employment survey final, 4th qtr	-	0.3%
	Canada	Jan building permits*	-2%	13.5%
	Sweden	Jan producer price index**	6.4%	6.3%
	NZ	Producer price index, 4th qtr	-	-
Wed	US	Productivity revenue, 4th qtr	-	1.6%
March 8	UK	Jan manufacturing output*	0.3%	0.5%
	UK	Jan manufacturing output**	4.3%	5.3%
	UK	Jan industrial production*	0.4%	0.8%
	Canada	Dec estimate of labour income*	0.4%	0.5%
	Canada	Feb housing starts, units	140,000	142,000
	Denmark	Dec trade balance, ex ships	Dkr3.2bn	Dkr3.9bn
	Denmark	Dec current account	-	-Dkr 1.1bn
	Spain	Gross domestic prod, 4th qtr**	2.6%	2.3%
Thurs	US	Initial claims, w/e March 4	335,000	331,000
March 9	US	State benefits, w/e Feb 25	-	2.55m
	US	Jan wholesale trade	-	2.2%
	US	M2, w/e Feb 27	$1bn	-$2.7bn
	Germany	Gross dom prod, West, 4th qtr q/q	0.8%	1.3%
	Germany	Gross dom prod, West, 4th qtr**	2.3%	2.4%
	UK	Dec visible trade, global	-£1.25bn	-£640m
	Canada	Feb raw mat'ls price indx, adv'ced*	1%	3.9%
	Canada	Jan motor vehicle sales*	-1.5%	3.9%
	Aust'lia	Feb employment rate	15,000	14,000
	Aust'lia	Feb unemployment rate	8.9%	9%
Fri	US	Feb nonfarm payrolls	232,000	134,000
March 10	US	Feb manufacturing payrolls	25,000	39,000
	US	Feb hourly earnings	0.2%	0.6%
	US	Feb unemployment rate	5.6%	5.7%
	France	Feb cons'er price indx, prelim*	0.3%	0.3%
	France	Feb cons'er price indx, prelim**	1.7%	1.7%
	Canada	Feb unemployment rate†	9.6%	9.7%
	Italy	Jan ex EU trade balance	-	L3.6tn
During the week...				
	Japan	Feb trade balance, first 20 days	-	$6.7bn
	Germany	Jan final M3, 4th qtr 1994	-	-5.8%
	Germany	Jan retail sales, pan Germany**	0.4%	-1%
	Germany	Jan retail sales, West**	-0.8%	-1%
	Switz'd	Gross dom prod, 4th qtr†**	2.5%	2.4%
	Spain	Feb unemployment rate	16.6%	16.7%

*month on month, **year on year †seasonally adjusted *Statistics, courtesy MMS International.*

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Prices for Trading on 03.03.95: Pool purchase price £/MWh	Firm Prices for Trading on 02.03.95: Pool purchase price £/MWh	Pool selling price £/MWh
0030	23.00	8.80	8.80
0100	14.73	6.23	6.75
0130	26.50	6.78	7.29
0200	26.50	6.78	7.29
0230	14.73	6.23	6.75
0300	13.96	6.23	6.75
0330	10.90	6.23	6.73
0400	8.45	6.08	6.59
0430	8.03	8.68	8.68
0500	8.79	8.20	8.20
0530	8.03	8.10	8.10
0600	8.19	8.10	8.10
0630	8.17	8.10	8.10
0700	8.17	8.10	8.10
0730	8.17	8.10	8.10
0800	8.15	8.10	8.10
0830	8.14	8.10	8.10
0900	8.15	8.10	8.10
0930	8.18	6.03	6.55
1000	8.79	6.03	6.55
1030	6.03	6.29	6.81
1100	6.03	6.45	6.97
1130	7.37	6.45	6.97
1200	7.37	6.45	6.97
1230	7.37	6.67	7.19
1300	7.37	6.67	7.19
1330	7.37	6.45	6.97
1400	6.03	6.29	6.81
1430	8.78	6.03	6.55
1500	8.15	8.65	8.65
1530	8.15	8.20	8.20
1600	8.15	8.80	8.80
1630	8.15	6.03	6.55
1700	8.15	6.03	6.55
1730	8.19	6.92	7.44
1800	6.03	7.88	8.40
1830	10.58	7.88	8.40
1900	26.50	7.88	8.40
1930	20.50	7.88	8.40
2000	19.53	7.88	8.40
2030	16.03	6.45	6.97
2100	10.38	6.29	6.21
2130	7.37	6.29	6.81
2200	7.37	6.04	6.56
2230	7.37	8.65	8.65
2300	8.85	8.20	8.20
2330	8.79	8.11	8.11
2400	8.18	8.10	8.10

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Prices for Trading on 06.03.95: Pool purchase price £/MWh	Firm Prices for Trading on 05.03.95: Pool purchase price £/MWh	Pool selling price £/MWh
0030	8.86	8.20	8.20
0100	12.29	8.03	6.82
0130	12.00	6.09	6.88
0200	15.32	6.09	6.88
0230	12.29	6.03	6.82
0300	16.32	6.03	6.82
0330	15.32	8.70	8.70
0400	12.29	8.88	8.88
0430	7.37	9.20	8.20
0500	6.97	8.11	8.11
0530	8.86	8.12	8.12
0600	8.85	8.10	8.10
0630	9.00	8.20	8.20
0700	9.04	8.80	8.80
0730	10.72	7.53	8.13
0800	10.87	7.54	8.14
0830	14.21	7.57	8.18
0900	14.08	7.71	8.37
0930	16.51	8.03	8.78
1000	20.26	9.38	10.18
1030	17.08	9.45	10.27
1100	16.87	9.35	10.14
1130	17.13	8.25	9.00
1200	17.61	8.29	9.10
1230	17.01	8.16	8.94
1300	15.94	7.93	8.65
1330	12.89	7.72	8.37
1400	14.55	7.65	8.28
1430	12.20	7.63	8.25
1500	12.12	7.61	8.23
1530	12.08	7.61	8.23
1600	12.90	7.73	8.39
1630	13.99	8.94	9.87
1700	18.32	29.57	34.95
1730	21.32	59.35	71.12
1800	30.56	73.69	88.78
1830	52.63	71.98	82.75
1900	54.68	35.68	41.17
1930	44.51	18.55	20.51
2000	23.83	12.46	13.29
2030	12.42	11.73	12.34
2100	13.68	7.55	8.15
2130	9.11	8.82	8.82
2200	8.95	8.80	8.80
2230	8.79	8.72	8.72
2300	8.19	8.65	8.65
2330	8.19	8.20	8.20
2400	8.15	8.11	8.11

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg

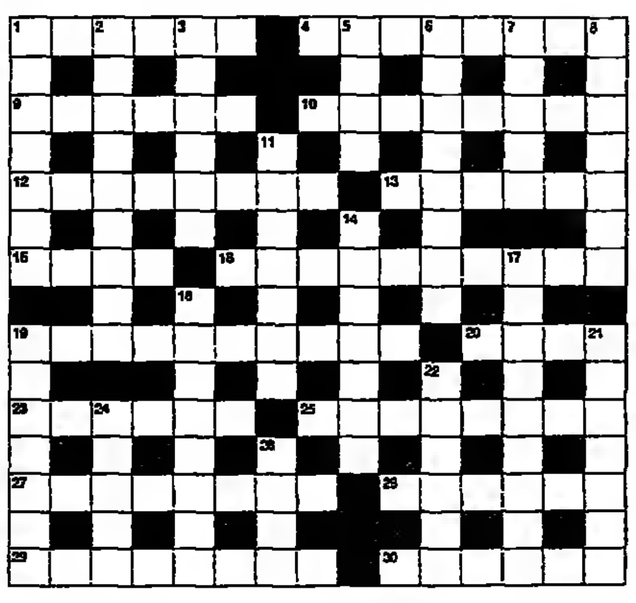
MONDAY PRIZE CROSSWORD
No.8,703 Set by VIXEN

ACROSS

1 A workar having to cast about to find a home (6)
4 Investing money in a boat that's tip-top (8)
9 Out of drink, so send out for it (6)
10 A sponger's father tries a corrective (8)
12 For a blackleg, taking on financial liabilities would be a bloomer (6)
13 Tbe outlook of coppers brought into a division (6)
15 A service without first class is to come down (4)
16 Judge offering alternative to a right little backslider (10)
19 Square with the Tory viewpoint? (5,5)
20 Potential high-fliers may well be hard-boiled (4)
23 Some malefactor - a scallywag - a scoundrel (6)
25 New resident installed (8)
27 11 being just too much! (6)
28 Suffering as a result of gold agreement (6)
29 He looks after the stock, but not mares, oddly enough (8)
30 A person accepting rent for meadowland with some hesitation (6)

DOWN

1 A writer, given direction, writes letters for the queen (7)
2 A quiet bell-like sound which is found pleasing (9)
3 Criminal Greek character in a spin (6)
5 The country needs 15 badly (4)
6 An inspired man created this wildlife sanctuary (5,3)
7 Agree to strike (5)
8 The individual raising a point with a minister (7)
11 Up-to-date general (7)
14 Not against leaving something (7)
17 Things set to change, allowing of no relaxation (9)
18 Suppress a certain figure in exceptional situation (8)
19 Quite unusual rose-red screen (7)
21 He'll take no chances backing horses! (7)
22 The man getting a note carried by raven (6)
24 It went ahead OK and has made good (5)
26 Calling for a little sweet-natured mount (4)



A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday March 16, marked Monday Crossword 8,703 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday March 20. Please allow 21 days for delivery of prizes.

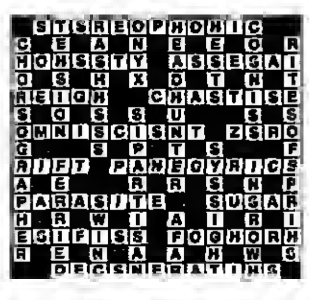
Name...

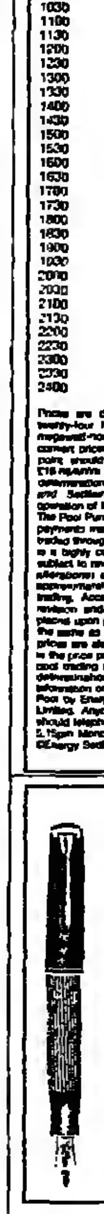
Address..

Winners 8,691

G. McGeachie, Troon, Ayrshire
M. Donaldson, Crawford, Strathclyde
B.G. Downer, Hamworthy, Dorset
Ms M. Lloyd Davies, Saffron Walden, Essex
E.W. Micallef, Balzan, Malta
Mr K. Tomica, Friedrichsdorf, Germany

Solution 8,691





JOTTER PAD

FINANCIAL TIMES SURVEY

CREDIT MANAGEMENT

Monday March 6 1995

Bad debt, or slow payment, has become crucial for companies as profit margins have narrowed during the recession. As a result, credit managers have won an enhanced role in business, says **Jim Kelly**

Controllers have come of age

Credit managers control one of the biggest assets many companies are likely to have – recoverable debt. And for this reason, the majority of medium to large companies are well aware that credit management is too important to be governed by makeshift procedures.

The credit controller, locked in an office away from the sales functions of the company, is, as a result, becoming a figure of the past. The Institute of Credit Management has 8,000 members, but it estimates that a further 30,000 individuals are involved in the sector across the UK, and enjoying in many cases an enhanced role within the businesses employing them.

The growth has taken place not just in larger organisations. A 1994 survey of 400 small- to medium-sized companies by accountants, Coopers & Lybrand, showed that 62 per cent had credit control managers – compared with just 49 per cent in 1990.

The two recessions of the 1980s have been the driving force behind the development of a more formal role within companies for the credit manager. Bad debts, or slow payment, became crucially important for companies, especially smaller ones, as profit margins narrowed.

Indeed, late payment during the recession adversely affected 48 per cent of companies, a report covering 655 manufacturing companies, by Prof Nicholas Wilson, of Bradford University, and sponsored by accountants, Touche Ross, has shown. The figure for those suffering bad debts was itself a high 28 per cent.

Significantly, companies which used credit management during the recession fared better than rivals which did not, according to Institute of Credit Management director-general, Peter Rowe.

This was because they instituted stringent credit vetting, held regular formal reviews of credit decisions, and used new technology developments, such as interactive cash collection systems, power dialling, and diarised reminders. They also visited high-risk customers, shortened collection cycles, and increasingly used written guarantees.

Yet, despite the crucial role of credit management, and the formal recognition which the profession has won in much of

A 1994 survey of 400 small to medium-sized companies showed that 62 per cent had credit control managers – compared with just 49 per cent in 1990

Europe, some companies still think credit management is useful only for crises. (The Coopers & Lybrand survey revealed that a third of companies did not use written contracts with customers).

The risks, especially during a period of growth after recession, are also very real. Willis Corroon, the credit insurance brokers, note that 95 per cent of all trade between UK companies is carried out on credit.

At any one time up to 40 per cent of the total current assets of a business may be represented by its debtors.

William Simpson, chief economist at Trade Indemnity, the leading UK credit insurance group, believes the upturn brings with it a different set of problems to which credit management has to be the solution.

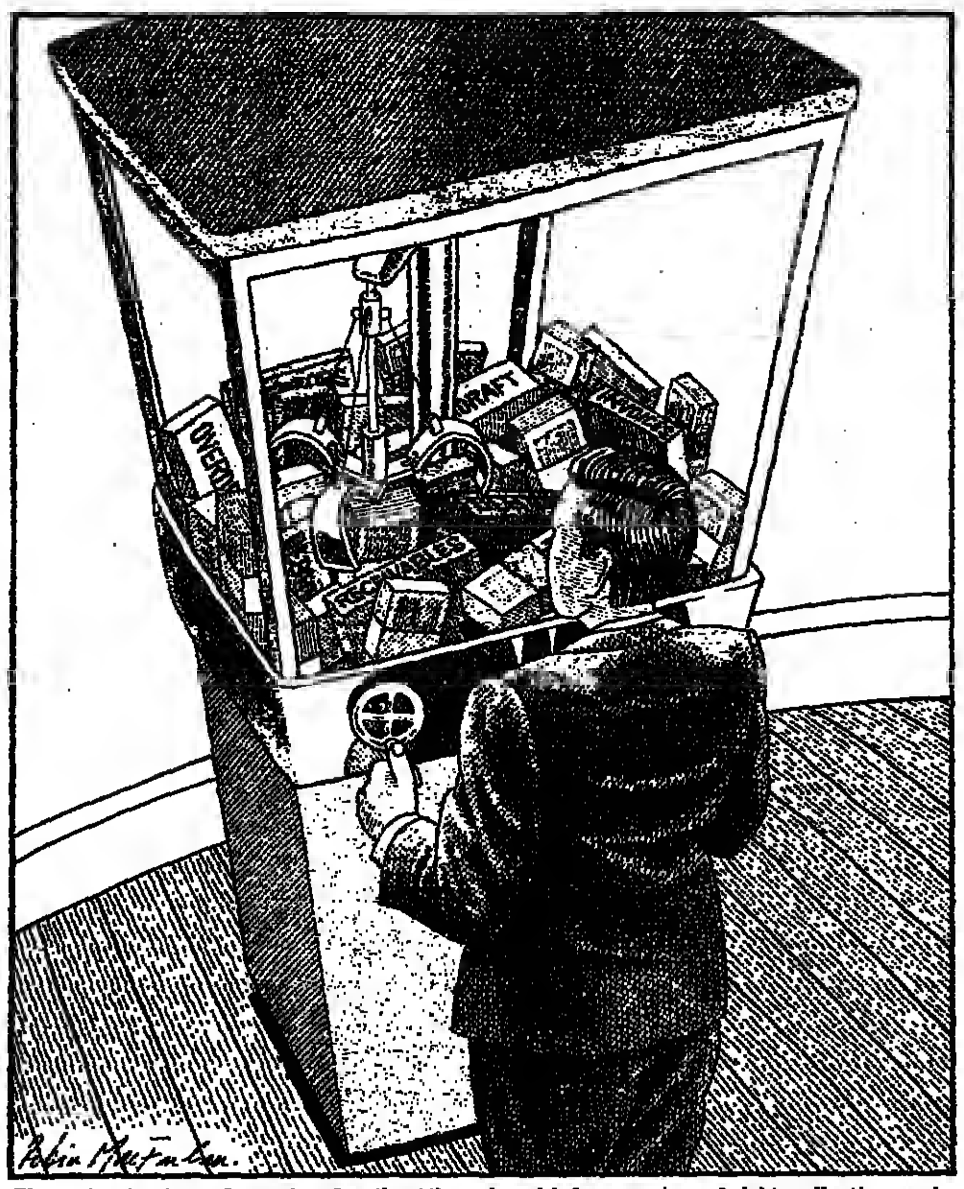
"It is not a recession product – it is a product which helps a business to grow," he says. "It has become crucial not to slip up [when it comes to knowing] whom you are trading with." Recovery is built on productivity advances, not high demand, and the investment and planning needed to prosper can be undermined by bad debt, he argues.

Late payment remains a persistent problem for British business. The latest quarterly survey from Trade Indemnity reported that just two per cent of UK invoices were paid on time – a figure which had not shifted from the levels of the previous three quarters.

The fact that the recovery has been partly built on export growth has also brought problems, Willis Corroon points out.

"Exporters are facing an increasing risk of late and non-payment by overseas customers. About half of all UK export trade is conducted on credit and as many as one in four UK exporters have reported suffering some loss of money during the last year through payment problems with their European customers, particularly when trading in France, Germany, Italy and Spain," says Willis Corroon.

The services available to support trade are, however, growing, including credit insurance.



"The privatisation of previously government-owned agencies, such as the Export Credit Guarantee Department, has resulted in the opening of cross-border insurance cover and the emergence of a pan-European market for credit insurance," Rene Chinnery, a director of Willis Corroon Europe, points out.

Growing business needs have also led to the rapid development of new and more comprehensive information services. Against competition from a number of rivals, Equifax, the Atlanta-based informations services group, recently bought UAPT-Infolink – the UK credit referencing business – valuing it at £51m.

Dun & Bradstreet still holds a steady 45 per cent of the UK business-to-business information market, and senior analyst, Philip Mellor, believes the industry is becoming increasingly pro-active – helping clients pick good customers.

Dun & Bradstreet, which keeps records on 38m companies worldwide, also sees evidence of increasing outsourcing of debt collection and a need by companies to gain access to more international information.

Yet, despite these developments there is obviously still plenty of room for growth in the market, as smaller companies decide to take advantage of business information services to improve their own credit management procedures. "In the smaller company, credit management is still part of the day-to-day work for the managing director alongside 45 other things," says Mr Mellor.

Other participants in the business information market compete on the accessibility and size of their databases. CNN Business Information, formed out of the 150-year-old Manchester Guardian Society in 1984 by CCN Group, has records on 931,000 individuals. The CCN Credit Database lists 1.3m companies and has tried to raise awareness of the dangers to companies of not knowing enough about the people with whom they trade – one in four directors had been involved with a failed company in the past six years, a recent survey showed.

Other new entrants include Mercury Business Intelligence (part of Mercury Communications), which has recently launched a "one-stop shop" for business information, supplying information from a number of sources including Companies House, Dun & Bradstreet, Equifax, ICC, and Jordans. Hilton Malcolm Underwriting offers information on 420,000 UK companies on its database. It estimates that only 20 per cent of trade debts are insured and is aiming to convince companies that such cover is as necessary as fire or car insurance and is readily available at a cost lower than most potential policyholders would expect.

Yet, the fear among some in the sector is that too many directors still see the credit management department as an overhead not a profit centre. Many credit managers, according to Roger Cork, of accountants Moore Stephens, are currently left to struggle with particularly difficult problems arising as a result of the difficulties which customers are often having with cash flow problems, with the consequent effect on their ability to make payments.

On the controversial issue of whether or not late payers should be obliged by law to pay interest on late payments the ICM has come out in favour of not making any change. "Unless the rate of interest is astronomically high it would be cheaper not to pay," Mr Cork says. He points out that interest can be charged on debts pursued through the courts, or indeed it can be written into contracts.

His view is supported by NCM Insurance, which protects £23bn worth of UK trade each year.

"As the Confederation of British Industry argues, large firms can easily get round such laws through negotiating better terms. At the same time smaller firms could come under pressure from suppliers, even though they were not getting paid more quickly," says a spokesperson from NCM Insurance.

IN THIS SURVEY

Colin Foxall: balance sheet protection is vital - Page 5

Editorial production: Roy Terry

CREDIT MANAGEMENT 2

INSOLVENCY REFORM: Jim Kelly looks at the chancellor's rescue proposals

Lifeboat plans under attack

When the Chancellor of the Exchequer announced in last year's Budget proposals to reform insolvency law in the UK there was a sense of urgency about his statement. "These measures," said Kenneth Clarke, "will contribute further to the creation of a rescue culture, discouraging wasteful liquidation of sound businesses."

However, insolvency experts are still waiting for the details and it looks as though they will have to wait some time yet. It is estimated unofficially that a consultative paper will be published "within the next couple of months".

Critics of the chancellor claimed that to reform insolvency law when an economy was recovering from recession was hardly good timing. Others applauded the government's determination to found a "rescue culture" and said that now was the ideal time for reform, because the lessons which had been learned during the recession could be taken into account before the next downturn in the economy.

The chancellor's statement was straightforward enough and followed a long, painstaking process of consultation within the sector. "During the recent recession, businesses, particularly small businesses, were too often being closed down by their creditors and jobs lost before rescue options had been properly explored," said the chancellor.

To give management of troubled companies more time to order their affairs the chancellor suggested a 28-day moratorium binding on all parties, during which rescue plans could be evaluated and creditors possibly brought into any arrangement. This move was the fruit of a process of consultation begun in 1993 with the publication of the department of trade and industry's consultative document, Administrations and Company Voluntary Arrangements.

But the chancellor had a surprise announcement. "We are also consulting further on a mechanism to help substitute equity for debt of firms in administration or receivership." This potentially explosive concept is much less advanced than the moratorium.

The idea of a moratorium has been welcomed by some experts, although there are considerable misgivings about the form the legislation would take and the balance of interests during the moratorium period. The second idea has been fiercely attacked and most senior insolvency practitioners believe it will be unworkable.

Last year, accountants Coopers & Lybrand asked 200 bankers, lawyers, accountants and trade creditors to comment on the moratorium concept – the "debtor in possession" scenario. Despite this revolutionary concept in UK law, Steve Hill, of Coopers & Lybrand, says most respondents were willing to give it a try.

More than 90 per cent of respondents wanted a new law to help company rescues but 86 per cent were against the abolition of receivership. Nearly 80 per cent felt that the insolvency practitioner should "maintain a strong degree of supervision" during the moratorium. And more than 80 per cent said people associated with the company should not be allowed to vote at creditors' meetings.

Colin Bird, senior corporate recovery partner at Price Waterhouse and chairman of the technical committee of the Society of Practitioners in Insolvency, said there was confusion about the role of the banks during such a moratorium.

The control of assets during this period was crucial to the moratorium issue and the chancellor had not clarified the matter, he said. The British Bankers' Association said earlier that it was unhappy with the moratorium and the possible curbs it would place on banks to appoint receivers.

Mr Bird added: "You don't want to screw up the whole basis of lending by banks to small businesses in the UK."

The question of control during the moratorium is also central to fears that such a measure might give unscrupulous directors the opportunity for fraud.

Despite the chancellor's promise of "safeguards", the issue of control will prove to be a controversial one.

Other questions would have to be answered before the concept of a moratorium can be accepted. For instance, would a company's stock market listing have to be suspended? "I can't imagine not," says Mr Bird, considering that the calling of a moratorium would represent the beginning of an insolvency period.

The debt-to-equity swap concept was criticised even more severely. Although the plan is still in its early stages, it is envisaged that a licensed insolvency practitioner would run the business for three months. The creditors would be ranked in order of priority. All share capital would normally be allotted to the floating charge holder – normally the bank. All other creditors would have a three-month option to buy the shares. The proposal would depend on the creation of a securities market for the options.

Ian Bradbery, president of the Society of Practitioners in Insolvency, said: "We have concluded that the proposals are flawed in principle, that they could not work in practice, nor would they be in the creditors' best interests."

He added: "We acknowledge that the legislators aim to maximise the efficiency of insolvency processes and in this way achieve best returns to creditors. This is praiseworthy. However, we have difficulty in reconciling the workings of the proposed scheme with the commercial realities of an insolvency situation."

Roger Gregory, of accountants Touche Ross, also criticised the proposals, which some insolvency experts believe have won government backing. Prof Gregory, an expert in corporate recovery, said: "One can see why the chancellor is so delighted with this new idea which, in effect, means that at the very moment when a company goes bust, it immediately and automatically becomes solvent. The creditors are forced to capitalise the company to the extent of their debt. These proposals do not appear to be just." He added that it might not be sensible to force everyone to swap debt for equity. "They are not equivalents – the life blood of commerce is money, not dodgy share certificates."

In the rush to create a rescue culture the government may be moving faster than many insolvency experts would like. One result of the Coopers' survey into the idea of a moratorium was that there was still support for receivership.

COMPANIES HOUSE: Geoff Dyer examines government reforms

Searching look at privatisation

Government policy towards Companies House, the official repository of corporate information, faces an unusual dilemma. The reforms the government has introduced in the past six years are almost uniformly praised by customers. But new proposals to contract out certain services have encountered widespread scepticism and opposition.

A report on Companies House by SRU, an independent consulting firm commissioned by the department of trade and industry, concludes: "Contracting out core operations would thus in our view be feasible, but unpopular. The costs – of various kinds – of doing it would be significant... Users and staff would clearly prefer continuing improvement under the present arrangement."

The vague nature of the government's plans means it is too early to predict accurately what effect they will have on the business information industry, but it does seem that the bigger companies stand to benefit the most.

Michael Heseltine, president of the Board of Trade, announced in December plans to improve "efficiency, value for money and standards of service". Private companies are to help develop new technology for Companies House and a number of services, including the London search room, are to be contracted out.

Once enabling legislation has been passed, Mr Heseltine hopes to publish the memorandum for tender in April with contractors being appointed in January.

Companies House is based in Cardiff, with satellite offices around the country, a separate Scottish Registry in Edinburgh and 1,000 full-time staff. Its function is to incorporate companies, to ensure companies comply with statutory filing requirements and to make that information public. Under civil service reforms it became an executive agency in 1988 and a trading fund in 1991. The functions of the registrar and ownership of the register will remain with Companies House.

Its customers enthuse at the advances it has made in those years. Michael Whitwell, chief executive of Jordans, believes: "In general, since it became an agency it has improved beyond all measure."

The background to the government's initiatives is the introduction of new technology which could transform the industry. The information that Companies House collects is stored on microfiche. The government wishes private industry to sponsor a move to digital technology which will make it far easier to check and sort data and to identify selected documents. Eventually, Companies House information could be available on-line.

The larger information companies generally welcome this change. Aidan Breen, operations director at Nottingham-based CCN Business Information, believes that the new technology will improve beyond recognition the delivery of data to customers of Companies House. Under the microfiche format, information equivalent to 350,000 pages a week is delivered manually to CCN.

But some smaller companies are worried by the developments, fearing the cost of acquiring information will rise.

The SRU report, which was based on soundings from a wide range of companies, claims that smaller operators are anxious that they will not be able to afford the capital expenditure to keep up with the new technology. SRU conclude that "it would require significant investment by the taker in equipment to receive and deal with information in digital form". Mr Whitwell of Jordans adds: "Smaller companies will be disadvantaged because only the bigger companies will be able to afford the new technology."

But Mr Breen does not believe the impact of digital technology on smaller information companies will be that large. The move away from microfiche will take at least five years, he believes, by which time less costly methods of data delivery incorporating digital technology will be available. "There will still be a basic product at a reasonable cost for smaller companies."

The new technology raises questions about the relationship between Companies House and the information industry that have yet to be resolved. The benefits of the digital format blur the distinction between Companies House as a wholesaler of raw data to intermediary information companies and as a retailer of selected data to end-users.

With a computerised database, Companies House (or a contractor) will have greater flexibility to deal directly with users of the information. Business information companies are anxious that the bar on Companies House making judgments about information and combining its information with other sources will be maintained.

To the relief of the information companies, Mr Heseltine has confirmed that access to the raw data at Companies House will be kept as wide as possible so that individual searches will still be possible. Otherwise, the few private companies which will be able to afford to process the raw information in digital form could end up with an effective monopoly of the market.

The other specific initiative that the DTI has outlined is the contracting out of the London search room, which carries out 1m searches a year, the Edinburgh office, which carries out functions for Scotland similar to Cardiff, and a number of administrative services such as cheque-processing and building management.

This will give the government the opportunity to prove that more cost-savings can be made by a private company and that the anxiety of customers that quality of service will deteriorate is misplaced.

The DTI has yet to decide whether business information companies will be excluded from tendering for the London search room.

Some customers believe that the limited measures outlined so far by the government are the first step towards effective privatisation, which was rejected a few years ago. Mr Breen claims: "This is a half-way house. If it is successful, then more and more services will be contracted out until the whole organisation is in the private sector."

THE ATHENA RECEIVERSHIP

A question of honouring debts

When Thorn EMI announced last month that it was closing nearly 300 stores in the Rumbelows electrical retail chain with the loss of 2,500 jobs, it went out of its way to assure suppliers that it would fully honour its obligations to them, to its customers and to third parties.

However welcome it may have been, was this assurance really necessary? Surely a well-established quoted company would always stand behind a subsidiary in trouble? Having withdrawn financial support for the subsidiary the next step should surely be to honour its remaining commitments.

Thorn EMI's public assurance was in marked contrast to the case of Athena, the greetings card and poster chain which collapsed after Pentos, the retail group, forced it into receivership with debts of more than £15m.

Pentos forced its subsidiary out of business because it believed that an estimated £9m to £12m was needed to make it break even. Pentos said it wanted the money to spend elsewhere in the group, but that strategy has failed, with banks last week withdrawing support from the group, forcing it into receivership.

The Athena case poses questions about the adequacy of legislative controls on the insolvency of subsidiary companies which are part of large groups. It led immediately for calls for reform. While memories of the case have faded it may yet prove to be the spur for change.

The debts of Athena remained with the insolvent company. Pentos, faced with its own severe problems had effectively ring-fenced its subsidiary so that none of its liabilities spilled over into the structure of the group to the holding company. What is more, Pentos did not feel that it should stand by the obligations of its subsidiary.

Creditors, many of whom said they had assumed that Athena would be backed by Pentos, were outraged and talked of legal action. One, who lost £80,000, said: "To ring-fence a bit of a business like this is morally reprehensible."

As the receivers, Grant Thornton, struggled to find a buyer, the situation was not helped by Pentos's admission that it had tried hard to sell its subsidiary but had decided "we couldn't give it away".

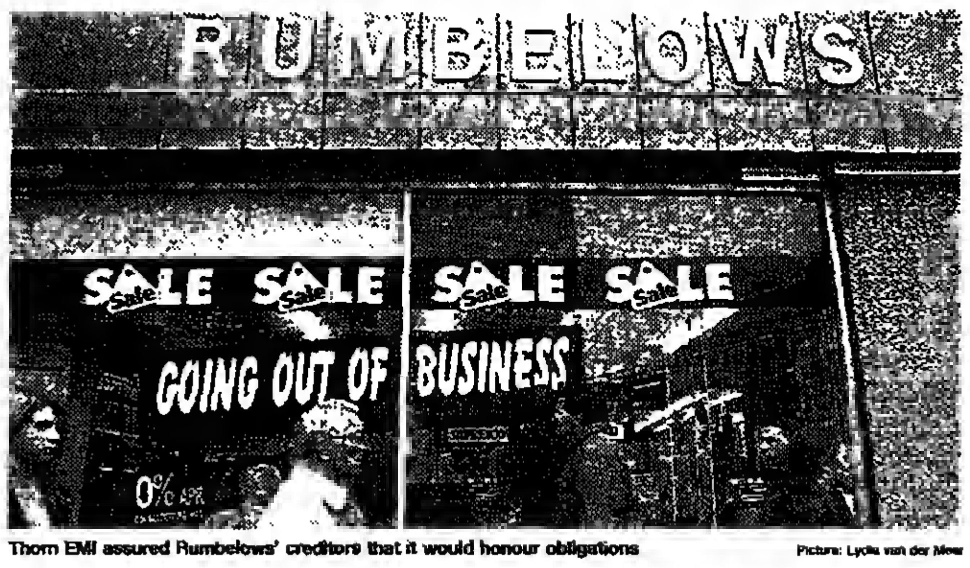
With hindsight, it is easy to say that everyone should know that companies are all about limited liability. British law does not require a parent company to bail out a subsidiary. "Each company stands alone," says Malcolm Fillmore, an insolvency practitioner with the Paul Peters Partnership: "There is nothing in the law which says that a group has to stand behind you. There is no requirement to back it at all costs. Legally, you would be fooling yourself – unless you get a guarantee or warranty from the holding company."

The lack of legal redress for creditors has prompted attempts at reform for more than 15 years. During the passage of the 1986 Insolvency Act in parliament it was suggested that subsidiaries which trade as part of a group should have the guaranteed backing of the whole group. However, the idea never made the statute book. A European Directive on the issue also foundered. The broad concept, that the subsidiaries should be backed by the holding company, has never been tested in court. "The conventional wisdom is that it would not succeed," says Mr Fillmore.

If there is no legal requirement to stand by a subsidiary, why do so many companies do just that? There are four main reasons, led by the potential loss of goodwill that results. An earlier example of the Athena problem prompted one insolvency expert to write that allowing a subsidiary to collapse should only occur "under circumstances that are pretty dire and when the parent company is in a position where its reputation is no longer valuable. For instance, companies with a substantial credit rating would not let a subsidiary go under because of the damage to that rating". Suppliers to the group may then start seeking stiff credit guarantees.

There are also substantial legal risks, although Pentos was confident that it followed strict legal advice. For example, a holding company could face action if a binding contract, which could be oral, was made with the directors of its subsidiary to provide financial assistance. In such a case the receivers could pursue the holding company on behalf of the creditors.

Finally, a divisional corporate structure, and a system of cross-guarantees, would make it very difficult for a holding company to walk away from a subsidiary. Groups divided into divisions are not able to take the course followed by Pentos, which was divided into free-standing subsidiaries. Many suppliers have their exposure to loss covered by agreements with the holding company.



Thorn EMI assured Rumbelows' creditors that it would honour obligations Picture: Lydia van der Meer

Such a network of guarantees means the course followed by Pentos would make little sense as these debts would still have to be met.

So, what can companies do to guard against being caught out like Athena's suppliers? In many large companies the answer is credit insurance, although there is some resistance in the UK to the idea.

"In the UK, companies seem

Continued on next page

CREDIT INSURANCE

Safeguard for the good times

Credit insurance is widely seen as complicated, costly and a cover of last resort. As UK companies ease their way out of recession, they are more likely to cancel policies than to renew or arrange them. But the principal credit insurers are fighting back. They are keen to demonstrate that credit insurance is not only a cover for the bad times, but is also a safeguard for the good times.

"It is when confidence returns, nominal interest rates drop and orders expand that companies are most in danger of ignoring credit insurance as a fundamental protection," says Colin Foxall, chief executive of NCM Credit Insurance.

Credit insurers argue that their policies help businesses to expand safely. First, there is the size and quality of the insurer's database. Credit insurers pride themselves on their ability to gather intelligence and monitor the financial health of companies. The database allows them to assess the creditworthiness of an insured's customers – a useful tool for sales people.

"Credit insurance helps the sales team prospect and target clients because it helps them to distinguish those with the money to pay for the orders they place from those who are likely to default," says Barbara Bennett, corporate affairs manager of Trade Indemnity.

The fact that the database is continually updated also lends a company a competitive edge. Ms Bennett says: "We are often in possession of information that enables us to underwrite a greater level of cover than the pnblished accounts would seem to justify. So, the company with a policy can continue to trade or even increase trade with a customer who is apparently in financial difficulty, secure in the knowledge that if the worst comes to the worst, we will pick up the tab."

If a company is seeking to expand, it needs more than customers; it needs finance. Although some banks are less restrictive about lending than they were a few years ago, a company still has to jump through the hoops to secure a borrowing facility.

A credit insurance policy gives confidence to the lender and may provide access to a wider range of banking services and an improved rate of borrowing. Ian Studdard, manager of Barclays' international trade department, outlines his bank's policy. "We do not insist on credit insurance, but it is a comfort factor for banks. We certainly look more favourably on businesses that are covered and would be prepared to lend more and, in some cases, at better rates."

Credit insurers are keen to shake off their image as bad debt insurers because the world of insurance is changing,

Barbara Bennett: credit insurance helps the sales team target clients

responding to the demands of an ever-more sophisticated consumer. "Balance sheet protection is vital," says Mr Foxall, "but we aim to offer a much fuller service to our customers. You cannot simply sell insurance these days because there is not enough added value for the customer."

Indeed, they are even having a problem selling insurance. The credit insurance market is one of the most undersold in the business, with only about 15 per cent of the potential market actually buying protection. "Few companies leave the safety of their property or their work force to chance, yet debts for goods and services are not given the same high priority," says Mr Foxall.

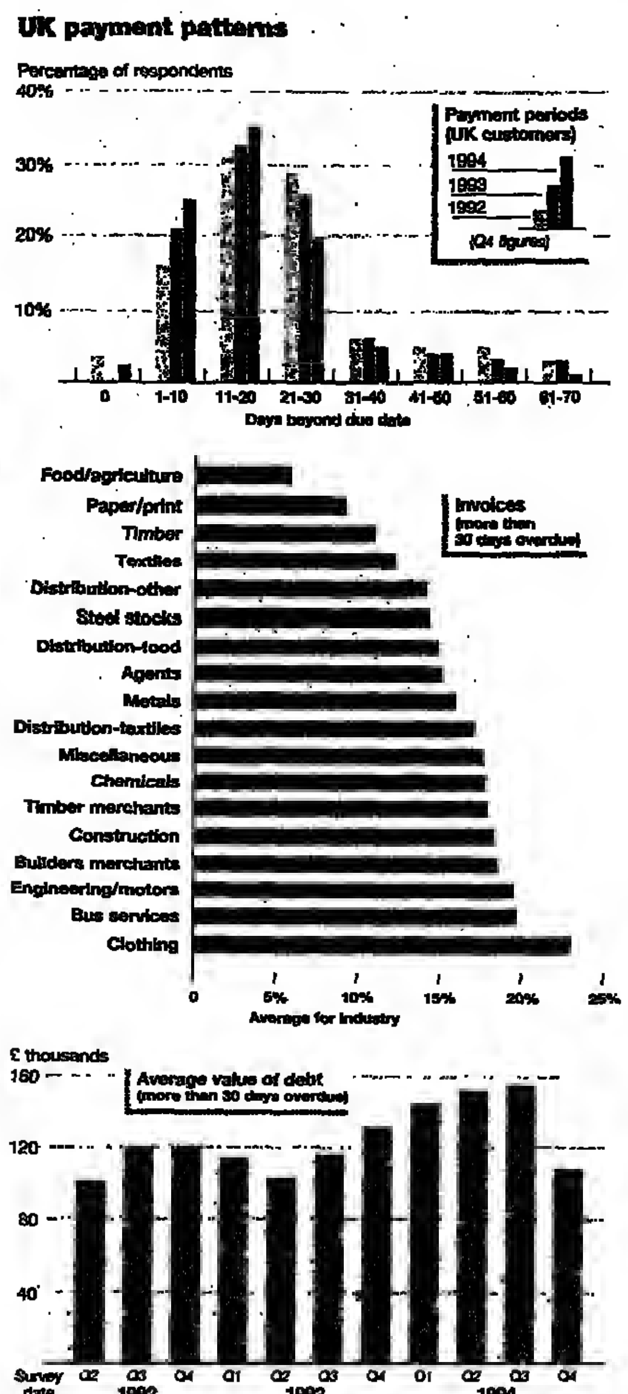
The cost of credit insurance is often cited as a stumbling block, hut Mr Foxall denies that premiums are inflated. "Outstanding debt can make up as much as 40 per cent of a company's assets. I don't think it is too high a price to pay less than 1 per cent of turnover to protect those assets."

There are around 20 credit insurers in the market, some of whom entered the field on the back of EU directives that opened up the non-life insurance sector. Competition is therefore keen and insureds can often negotiate premiums.

Mr Foxall also dispels the myth that credit insurance is unnecessarily complicated. "We have taken great pains to make our domestic policy easy to understand, simple to arrange and tailored to individual customer's needs."

There are a number of different types of credit insurance policy, but the most common is whole turnover. Here the insurer covers as much of the policy holder's sales ledger as possible – the good the bad and the ugly. (Although if it is really ugly it is excluded.) Most companies opt for whole turnover because it is the cheapest form of cover.

Larger companies that demonstrate expert credit control may only want to protect themselves against a large, unforeseen loss. Catastrophe cover or exceptional loss policies are available for the insured who can cope with a large excess of about £1m or more. Smaller businesses can huy whole turnover or catastrophe cover, but insurers are



Source: Trade Indemnity; The Quarterly Financial Trends Survey

less willing to tailor the policies for small firms.

Specific account policies are written for one or a group of buyers, hut are expensive hecause the underwriter is exposed to poorer qnality accounts. Multimarket polices are relative newcomers, designed to cover companies who trade in the UK and a number of other countries. They are ideal for companies ahout to embark on export trade, but whose export turnover does not justify a policy of its own. Export cover is generally written on a whole turnover basis and covers political risk as well as commercial insolvency.

"Myth has it that insolvencies decline on recovery from recession bnt this can be the most dangerous time for businesses who may be tempted to overtrade with customers whose balance sheets are not fully restructured," warns Mr Foxall. "In the last four years there have been about 200,000 UK company failures. Many of those companies would still be in business today if they had better understood the value of credit insurance."

Naomi Caine

Question of honouring debts

Continued from previous page

to consider credit insurance,particularly for domestic sales, as either a luxury or as a necessary evil, to be maintained only while the company is able to make a profit from the underwriter or whila trading conditions are difficult," says Nigel Horsey, managing director of Willis Corroon Credit. "Specific account cover" would belp in tbe Athena situation: but "wbole turnover cover" and "catastrophe covar" are other forms available.

Beyond insurance there are other safeguards. Guarantees can be written into contracts with holding companies, and some groups are protected by "cross-guarantees" which hind the corporate structures together in a network of cover. A bond can be set aside to cover a transaction – e method common in protecting landlords. Credit evaluation can be bought for as little as £20.

But in a tongh economic climate few companies, especially small suppliers, are able to take systematic precautions. Bod Prods, a supplier of novelty stationery to Athena, illustrates the problem. It lost £75,000 over the collapse and admits that if asked 24 hours before the news hroke what it thought of Athana's credit record it would have been glowing.

The dangerous assumption was that Pentos, the holding company, would act as the "ultimate debtor".

Jim Kelly

'COWBOY' CONSULTANTS: **Jim Kelly** discusses a growing problem

Beware of debt counsellors

While the UK economy may be recovering from recession the proportion of small businesses facing insolvency is rising and the number of "cowboy" insolvency consultants offering to help appears to he growing rapidly.

The latest survey by the Society of Practitioners in Insolvency (SPI) reveals that nearly half the total liabilities of insolvent companies are found in companies with a turnover of less than £1m – 9 per cent higher than the previous year.

Most company failures involve companies with less than 15 employees (82 per cent), turnover of less than £1m (76 per cent) and liabilities of under £1m (87 per cent). Licensed insolvency practitioners manage most of these failed companies.

However, organisations calling themselves insolvency consultants have been moving into this market. The problem posed by these so-called consultants is recognised by the department of trade and industry. "A solicitor or an authorised insolvency practitioner is tbe most obvious source of sound and objective advice in this area. Otber reliable sources include tbe Citizens Advice Bureaux," the department advises.

"However, over recent years, there has been a growth in the number of debt counsellors and those offering advice in this area. Some such firms are entirely reputable and offer a professional service: others are run hy individuals with no obvious qualifications, who are motivated by self-interest and whose principal aim is often to divert all or part of the assets of tbe company away from creditors with a view to financial gain for themselves."

The modus operandi of the insolvency "cowboy" is now becoming sadly familiar. The process may hegin with an advertisement in a local or daily newspaper or the trade press or, more commonly, with the scanning of county court lists or the London Gazette where small companies facing a winding-up order are listed.

The first approach is normally by letter. Tony Supperstone, a partner at BDO Stoy Hayward and vice-president of tbe Insolvency Practitioners Association (IPA), sympathises witb company directors in such situations.

"Obviously people under pressure who do not know where to turn and who get a letter in the post offering assistance, may jump at tbe chance," says Mr Supperstone. The sort of assistance offered in these cases covers a range of services.

The most hlatant example is tbat of Xcbange Corporate Resources, of London. A copy of their "pitcb" fell into the hands of the IPA and has been passed to the DTI whicb is investigating the matter.

Xchange offered to arrange the resignation of existing directors and to appoint substitute directors. They would change the registered address of the company – the address where writs should be served – and would also change tbe name of the company.

Having taken control of the company tbey would get in touch with creditors and tell them the new arrangements. They would deal with all legal demands and tbe winding up of the company. Their letter concluded: "We charge a fixed fee of £675.00 plus VAT (per director) for the above service. We can also incorporate a new limited company on your behalf if you propose continuing in business."

"I have seen such services offered before but none as hlatant as this – it explains the service they offer in great detail," said Mr Supperstone. "It is possihly not illegal. It is extremely misleading, and ill-judged, and leaves many questions unanswered."

The DTI says that many insolvency consultants might be understood to infer that they can take over the complete responsibilities of a company on payment of the specified fee. "However, what they fail to state is that they cannot deliver what they appear to offer," says Mr Supperstone. "No person can relieve the officers and former officers of a company from their responsibilities under tbe companies and insolvency legislation."

Xcbange Corporate Resources said that it always pointed out to clients their on-going legal responsibilities. Xchange's sales force was armed with a manual which made clear the continued responsibilities of directors. However, Xchange's literature states: "Any directors seeking a fresh start without the excess baggage of his corporate past will welcome Xchange's service."

The DTI says that in other cases insolvency advisers give the impression that an initial fixed charge is the only cost incurred by former directors: if asked to deal with the assets the insolvency consultant may make a further charge. "The activities of debt counsellors wbo offer what they cannot deliver is of particular concern to the DTI," it said.

Mr Supperstone estimates that there may be 20 to 30 unlicensed advisers operating in the UK compared with 2,000 licensed insolvency practitioners.

The 1986 Insolvency Act introduced licensing, which is carried out by eight professional bodies such as the association. "This made sure that people wbo bad a licence would be accountable to their professional bodies," says Mr Supperstone. "The unlicensed advisers are not responsible to a body and they are are riding on the back of the rescue culture." Other services offered by unlicensed advisers include dealing with writs, debts, creditors, refinancing packages and factoring, and even venture capital schemes.

Michael Barry, a fellow of the Institute of Credit Management, said: "This does seem to be a problem that has been getting worse in tbe past six months. The IPA is looking very hard at the problem and asking for reports to be made to them on particular cases." However, Mr Barry said that the IPA doubted whether the DTI had "the resources or the personnel" to deal with individual cases.

One way forward could be to educate tbe small business director about credit management and to introduce more sophisticated procedures of credit control. "The fact that less reputable organisations seem to get business is, in large part, due to the ignorance of those wbo employ them. They offer amazing 'services' which anyone with any knowledge of the credit industry would know they cannot provide. Yet many use them and suffer as a result," said Mr Barry.

FACTORING: **Christine Buckley** looks at a growing industry

A lift from the recession

Factoring is becoming fashionable. Witb its business escalating over the past few years, the industry is shaking off its unenviable image of last-ditch lender.

Recent figures from the Association of British Factors and Discounters (ABFD) show that volume rose 24 per cent to £24.41bn in 1994, continuing a strong growth trend. Sales factored by its members – which account for 90 per cent of the UK's factoring business – in 1993 were up 23 per cent to £19.68bn.

According to the independent annual report on the industry*, there has been a compound growth of 20 per cent each year since 1981. The report's author, Michael Bickers, said: "Factoring is developing into a mature industry. It has a rosy future, and there is a long way to go." He estimates that the sales for the whole UK market will reach £26.6bn for 1994. Mr Bickers believes that the potential market for factoring is several times its current size.

At present, more than 13,000 businesses use factoring services, which include maintenance of the sales ledger, collection of accounts receivable and bad-debt provision. The industry bas also won the endorsement of Eddie George, governor of the Bank of England, and Howard Davies, director-general of the CBI.

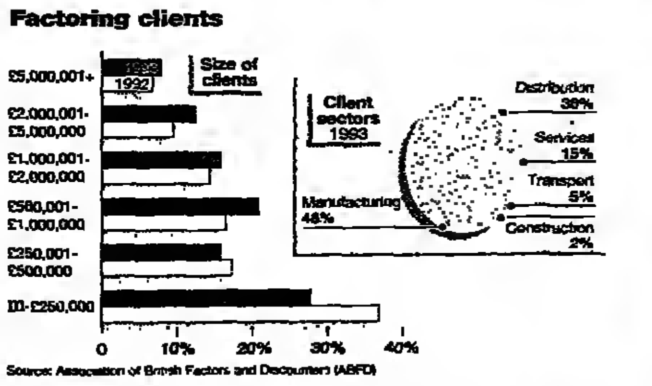
Several considerations have belped the Cinderella of corporate finance go to the ball.

Not least has been the recession, which proved a strong stimulns for the factoring industry on two main fronts. It toughened the banks' reluctance to supply cash advances to smaller husinesses, and increased the tendency for late payment. CBI research shows that one in 10 smaller businesses believes that late payment put its survival in jeopardy. Hence the urgency for stringent credit management.

Smaller and medium-sized companies generally report a declining willingness by banks to lend on overdraft. They have needed to find other sources of working capital.

The use of factoring to gain capital against unpaid invoices and debt, and to offload collection of that debt, has gained popularity among smaller and medium-sized companies whose cash flows are susceptible to late payment.

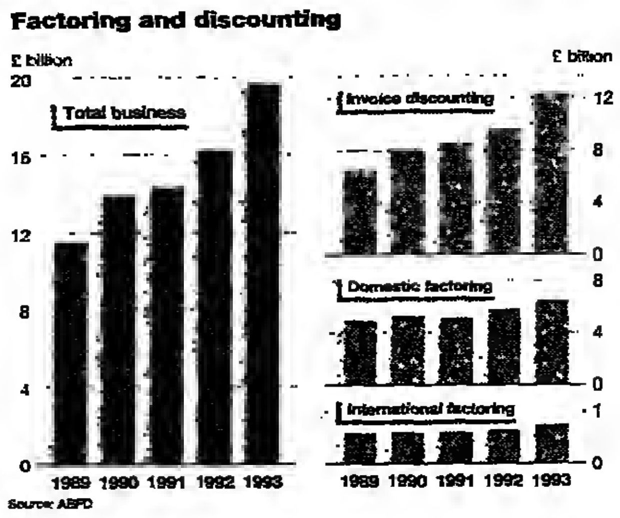
For them it has proved a flexible alternative to bank lending. Unlike banks, factoring practitioners are not concerned with the state of the balance sheet – their security is in the book debt of the company. This fact can also prove a reassurance to the companies. As the lending is directly related to sales, the danger of overstretching is reduced.



Source: Association of British Factors and Discounters (ABFD)

A growth in the number of small businesses has also widened the base of potential customers for factoring. The number of businesses registered for VAT by March 1994 was 1.59m – a small dip on the previous year's figure, although that is largely accounted for by the Budget's increase in the registration threshold. In 1993, it was 1.67m, which marked a 21.5 per cent increase since 1980. Last year 370,000 start-ups began trading in England and Wales in 1994 compared with the 1993 figure of 350,000.

Companies using full factoring services have an average turnover of £1.7m, while those using invoice discounting have a typical turnover of £4m. According to CNN Business Information less than half of UK companies with turnover under £5m employ full-time staff to run their sales ledgers and track payment.



Source: ABFD

Invoice discounting is also proving popular amoog medium-sized companies. It can be more attractive because of the relative cheapness, and because a company does not have to disclose that sucb services are being used. Last year, invoice discounting sales generated by the ABFD rose 28 per cent to £14.33bn, totalling 58.7 per cent of the sales.

Clearly, new customers are coming to factoring. Other areas of expansion are also open to the industry. The most obvious is factoring for exports and imports, a relatively little-used facility. Although the practice is beset hy difficulties, with varying laws and customs between countries, efforts are being made to ease international factoring. Factors Chain International is an association of correspondent factor companies. Based in Amsterdam, it is used hy the majority of factoring companies. But tbe customs still vary so much within and between some countries that factoring even between cities can be a problem.

Ben Allen, chairman of the Association of British Factors and Discounters, said: "Tbe growth in exports and imports factoring is not as I would like it. But within the next 10 years, international factoring will, I think, move into the same gear as the rest of the industry."

For 1994, export factoring comprised just 1.1 per cent of the total sales of the ABFD at £269.9m. Together with import factoring tbe percentage was 3.45 at £843.1m.

Greater interest in factoring, and the competition it has sparked, bas also had an effect on fees, which sometimes now prove a match for overdraft rates. An average cbarge, depending on the size of the company or the work it wants done, is 2 to 2¼ percentage points above base rate.

"There is some downward pressure on charges," said Mr Allen. "A few years ago, wben a company wanted factoring, it would maybe talk to one provider and would have to ask what factoring involved. Now, it will talk to two or three and will be very sure of what it wants."

Ironically, as companies become keener to deal with factors, there is a trend for factoring providers to drop the f-word from their titles. Among recent changes are Century Factors, which became Close Invoice Finance; and Royscot Factors, which is now Royal Bank Invoice Finance. Perhaps such name cbanges are intended to further factoring's baptism into corporate finance acceptability.

Factoring in the UK is available from HMSO.

SMALL COMPANIES: **David Blackwell** examines the need for credit management

The squeaking wheel gets the oil

Money is used to pay bills, and credit is used to delay paying them. This remark, made by Sir Alan Walters in the late 1980s, is not as obvious as it sounds.

Many small companies fail in their first two years of life. And Paul Stevenson, an independent adviser on credit problems, suggests that few of them will have had much, if auy, credit-management advice. Yet credit is more than likely to have been among the problems that stopped them trading.

"Small companies tend to push credit on to the back burner," says Mr Stevenson. "It's not the immediate issue."

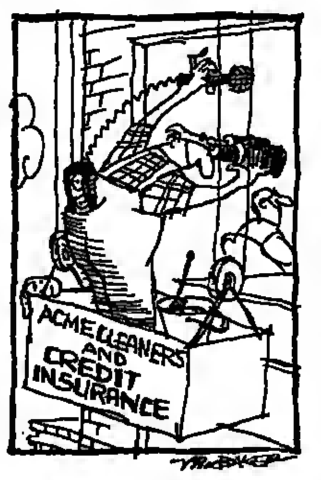
Instead, the company puts too much emphasis on selling and sales, so that profit margins are eroded by bad and overdue debts.

Tbe number of orders taken on trust astonisbes Philip Mellor, senior analyst at Dun & Bradstreet International, tbe business information group. "Only for one order out of 15 does anyone take any information on their customer – most simply say thank you for the order. But if a small firm suffers late payment, it can be the straw that breaks the camel's back."

So how large does a company have to be before it needs to consider credit management, given the great variety of circumstances?

An agricultural machinery company may generate turnover of £15m from 15 sales, leaving just 15 invoices to chase, while a video tape company with the same turnover is likely to have thousands of invoices.

Mr Mellor believes that no company should consider itself too small to take advice on credit matters, and points out that a company with a bad debt of just £100 needs to generate a further £200 to £300 simply to compensate.



It may need to know how quickly or slowly a well-known larger company is likely to pay up. The knowledge could be critical, he adds.

"You need to be as professional as a medium to large company. No quarter is shown – no small company will be treated as an exception."

Mr Mellor recognises tbat, when the pressure is on a company through lack of business, the last thing it wants to do is turn down an order.

But tbere are instances when it may make sense to do so. Moreover, if the company knows that a potential customer is a late payer, this could make a difference to its pricing policy.

Mr Stevenson thinks the importance of credit management has increased in recent years, because of the recession, and that people are looking for a more professional approach. Every company should hava a formal credit-policy document agreed by the board, and distributed to the senior management as part of company policy.

Now is the ideal time to take a look at credit management, he believes, as small companies start to come out of recession and try to expand. Balance sheets are not strong, so tbey cannot borrow to expand. Instead, they should turn in on themselves, suggests Mr Stevenson, and look for internal assets sucb as debts in old accounts. "If tbese can he released, they could supply some of the money for expansion."

He cites his own experience at a chemical company, wbere overdue debtors were cut from about £100m a mooth to £60m, reducing significantly the need to borrow, and saving interest of £2.5m a year. "The same rules apply to small businesses."

Even where small companies have credit departments, Mr Stevenson believes many of the systems are archaic. It is no use sending letters when debts are already overdue; companies need to telephone customers early, and find out if there are any queries, he advises.

Most computer systems will list total debtors and overdue debts, hut they are often shown in alphabetical order. It is better to list them in order of value to the company, says Mr Stevenson.

Under normal 30-day terms, production sold in March is due for payment hy April 31, so on April 18 the person responsible for credit sbould ring the customer and make sure there are no problems. This will both bring any problems quickly to light and remind the customer that you expect payment on tbe due date.

Credit managers, who will get to know the customers well, should record the date and time and what was said on the telephone. Then the customer can be challenged if paymeot is not fortbcoming.

However, the credit department must be careful not to lean too hard on customers. Some will find that mucb of their overdue debt is caused by problems with goods or services supplied. Once such problems are sorted out, the logjam of overdue debt may come down overnight.

Tbis underlines tbe importance of lines of communication, both inside and outside the company. The credit department must work closely with the sales department, and know tbe sales objectives. It needs to know which sales are most profitable, so that it can pusb them through quickly. It can also tell the sales department which customers are the least risky.

Companies that are too small to set up tbeir own credit departments can turn for advice to the 8,500 members of the Institute of Credit Management.

Mr Mellor suggests that the cost of advice can be surprisingly small, with a cbarge of less than £10 for the most basic advice on the average trading risk.

Reluctance to ask for outside help may cause a small company to speod time on credit management that would be better devoted to its proper business.

"Companies sbould stick to what they do best, and not be afraid to seek advice," says Mr Mellor.

Mr Stevenson agrees: "Today, in the UK, there is still a stigma attached to asking for money – hut if you don't ask, you don't get paid. It's the squeaking wheel that gets the oil."

Case study: HUNTER TIMBER

System cuts the risks

Wben Hunter Timber, an offshoot of the Wickes Group, appointed a credit director wbo describes himself as primarily a business analyst it got more than it bargained for.

When be arrived, he installed a new system of credit management for tbe company, whicb last year had a turnover of £308m.

Risk assessment is now undertaken by a pnwerful credit monitoring system developed in conjunction with Dnn & Bradstreet, tbe business information group.

Not only dnes tbe programme eliminate many of the mundane dnties whicb were execnted by credit analysts, it also assists the operations of the marketing department.

The system, called Decision Index, was created for tbe company after the arrival of John Griffiths as credit director.

With, in his own words, no formal backgronnd in credit analysis, Mr Griffiths was determined to cnt a swatbe througb tbe credit management process wben be joined Hunter in Angust 1993.

Mr Griffiths said: "I wanted to look at the whole operation. It seemed to me that credit analysts often shield their work in mystique and jargon but it can be quite a mechanical process."

John Griffiths: his system transformed credit analysis

While feeling tbat tbe department functioned well nnder the old anspices of credit monitoring, be was anxious to modernise the practice. Mr Griffiths, who is now merchanting director at the company, found tbe methods of traditional credit management too labour-intensive.

"It didn't always cope with the demands of the business. We weren't using technology in a way that I thought we sbould," says Mr Griffiths

Particnlarly unsatisfactory, be thought, was the response times, averaging four to five days, to credit requests from Hunter's branches.

To speed up such response times and generally streamline the credit analysis operation, Mr Griffiths wanted a system that would cut tbe paperwork involved in many credit applications and free credit analysts to meet customers.

"Mncb of the work could be automated and it is important for credit analysts to meet customers because they are then able to get a mnch better idea nf tbeir positions," said Mr Griffiths.

Hunter Timber's approach to Dnn & Bradstreet to work on the prodnction of a credit monitoring system was a natural one as the company had used D&B's financial information services for a number of years. D&B's business information service bad been contemplating the development of sucb a programme.

The two were able to work together on a system tailored for Hunter's specifications whicb would provide a general framework for other models. Mnch nse is now made of similar models in the insurance field.

The system took 12 months to complete and Hunter's credit management implemented it last August. Mr Griffiths believes it bas transformed the role of credit analysis. "The response time to branches has been reduced from days to just minntes.

Continued on page 5

CREDIT RATING: **David Wighton** reviews changes in the industry

Instant facts on customers

Nothing concentrates the corporate mind on credit management quite like a recession. Yet, for the credit rating industry the recession was no boom, and neither is the recovery.

The problem is not lack of demand for its services, but the impact on prices of growing competition and new technology combined with the cost of keeping up with developments.

All this should be good news for their customers. Julian Blakey, credit controller at Bux Corrugated Containers, a packaging company based in Diss, Norfolk, says there have been significant changes for users of credit rating services over the past few years.

"The greatest single step forward has been the ability to get instant access to information from an on-line terminal," says Mr Blakey.

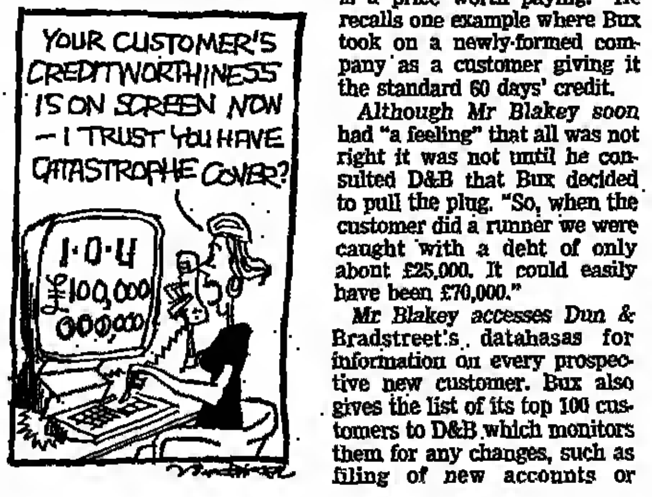
The credit agencies have also invested heavily in technology to improve the quantity and quality of information they provide.

Around two-thirds of the data supplied by Dun & Bradstreet, the UK market leader, is publicly available information such as accounts lodged in Companies House and county court jndgments.

Technology haa enabled agencies to speed up the acquisition of data, according to Philip Mellor, Dun & Bradstreet's senior analyst. "If a company files accounts in Companies House today it will be on the database tomorrow and county court judgments are fed in overnight."

The data is then analysed, for example by comparing accounts with other companies in the same industry.

Increasing use is also made of unpublished information. Several thousand companies provide Dun & Bradstreet with access to their ledgers on a confidential basis. This allows the agency to analyse the payment behaviour of all the companies' customers and provide more timely forewarning of possible problems.



Mr Mellor explains: "There is a very strong correlation between a company's payment patterns and its potential survival. If you looked back at Maxwell Communicationa'a record it as good as stopped paying its hills 18 months before its demise."

No such system is 100 per cent accurate but the predictive record of rating agencies is fairly good. The "risk indicators" D&B assigns to companies range from 1, representing minimal risks, to 4, representing significant risk where companies shouid "take suitable asaurances befora extending credit".

D&B claims that 12 months prior to failure, 74 per cent of failed businesses were assigned a risk indicator of 4. By three months before failure this rises to 90 per cent.

Admittedly, about a fifth of companies are assigned indicators of 4, many of which do not fail. However, a business with an indicator of 4 is 150 times more likely to fail than a company with an indicator of 1.

Richard McCrohan, managing director of Equifax Europe (UK) Ltd, another credit information agency, argues that assigning the highest risk rating to a company does not mean it is going to go bust and that you should not do business with it.

"It means that you should consider your credit terms, say supplying on a payment upfront basis," he says.

Mr Blakey of Bux has no doubt about the value of the information it gets from Dun & Bradstreet. "It is pricey, but it is a price worth paying." He recalls one example where Bux took on a newly-formed company as a customer giving it the standard 60 days' credit.

Although Mr Blakey soon had "a feeling" that all was not right it was not until he consulted D&B that Bux decided to pull the plug. "So, when the customer did a runner we were caught with a deht of only abont £25,000. It conld easily have been £70,000."

Mr Blakey accesses Dun & Bradstreet's datahasas for information on every prospective new customer. Bux also gives the list of its top 100 customers to D&B which monitors them for any changes, such as filing of new accounts or change of directors, and compares their payment patterns with industry norms.


Julian Blakey: no doubts about the value of an on-line terminal

Apart from giving companies forewarning about possible serious problems, the credit agencies can supply data on bow long particular companies take to settle bills. This can be valuable information evan if there is no question about a company's ahility to pay.

The sort of data the agencies gather can be applied to situations other than offering credit. Equifax has introduced a number of products for the insurance industry to help assess the risks of taking on new commercial property business.

These exploit the relationship between a company's financial health and the likelihood that it will make a claim on its insurance be it for arson or theft.

Mr McCrohan says this sort of product is typical of a trend towards credit information companies offering services tailored to particular business sectors.

"The industry is moving away from merely producing a range of reports to offering more specific decision-making tools."

Advances in technology mean that software can be built into the customer's own computer system so that the credit rating agency's data can match the customer's own criteria.

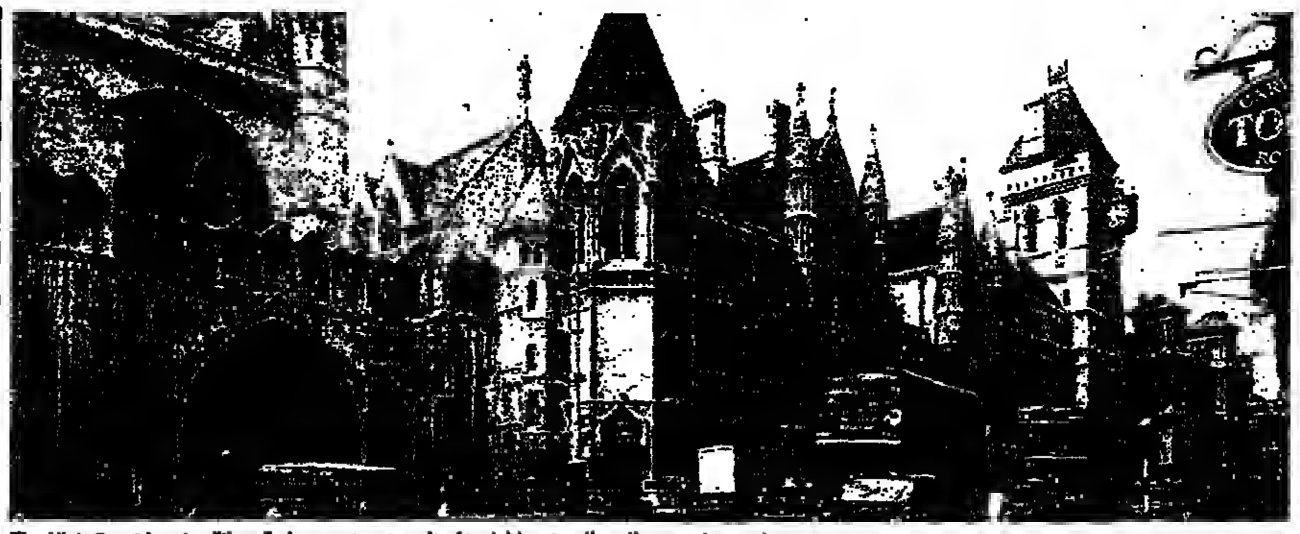
Considering the huge improvements in the quality of information available, the increasing ease of access and the reducing costs many observers find it surprising that more companies do not make use of credit agencies.


Richard McCrohan: services are tailored to needs of a business

Mr Blakey at Bux says he gets strong support from his finance director. "He believes in the effective management of the company's main asset – its debtors. But in many companies credit management takes a back seat to sales."

Dun & Bradstreet is trying to persuade sales departments to use its services before credit management gets involved. "It is an expensive waste of resources if a salesman makes a sale only to be told by the credit controllers that the customer is a bad risk," says Mr Mellor.

Dun & Bradstreet is even trying to sell its data as a marketing tool. By comparing a client's customer list with its industry database D&B can help identify those potential customers which the company is not selling to – the creditworthy ones, of course.


The High Court has traditionally been more popular for debt cases than the county court

LEGAL ACTION: **William Lewis** explains how the courts work

Legal action the last resort

Using tbe courts to recover dehts is costly and often time-consuming so creditors should use this method of obtaining payment as a last resort.

The first step companies which are owed money should take is to make sure that the debtor has the funds or assets necessary to pay the debt.

Having assured themselves of this, creditors should first try sending a solicitor's letter or, if this fails, calling in a debt collector.

If these methods fail, actions can be brought in the Higb Court or in the county court, or an action can be instituted under the county court small claims procedure.

Following the introduction of new rules, certain cases involving more than £50,000 are transferred from the High Court to the county court each year.

Plaintiffs who mistakenly attempt to bring an action in the High Court instead of in the county court, also risk the possibility of their case been struck off the roll.

The High Court has traditionally been more popular for debt cases than the county court. The reasons for this popularity includa the possibility of a quick summary judgment as well as the perceived efficiency of the Higb Court enforcement officers compared with county court bailiffs.

However, the county courts now have the same powers to make any orders as the High Court.

However, these powers do not include the granting of Anton Piller orders, to prevent destruction of documents, and Mareva injunctions, granted to prevent the transfer of assets.

This means that creditors who wish to stop debtor companies destroying assets may still prefer to commence their actions in the High Court.

Information on Higb Court judgments is scarce partly because of the large number of cases which are settled out of court with the terms of settlement remaining secret.

For all practical purposes, however, the county court has hecome the focus for debt actions. Actions are commenced in the county court by issue of a summons and in the High Court by the issue of a writ or originating summons.

The procedure after a summons or writ is broadly the same and if tbe defendant enters a defence the issua may go to trial.

County court cases involving sums up to £1,000 are dealt with by district judges by arbitration under the small claims procedure, unless the cases are complex. These arbitrations are informal affairs and parties are encouraged to handle small claims themselves rather than briefing a lawyer to appear for them.

Legal aid is not available and normally the winning party cannot recover the cost of legal representation from the loser.

If the defendant admits the claim and makes an offer of payment which is accepted by the creditor, judgment will be entered in his favour. If the creditor rejects the offer, a "disposal hearing" will take place at which the court will set the amount the defendant must pay. If the debtor is ordered to pay by instalments, the court will set the amount of each instalment.

If the defendant fails to respond to the summons, the creditor can obtain judgment in default without any examination of the merits of the claim.

Most county court judgments are immediately entered on the County Court Register. Entries can be cancelled when a judgment is set aside or reversed or paid in full after one month. Judgments paid in full after one month can be noted on the register as "satisfied". All entries are automatically removed after six years.

Once the plaintiff has ohtained judgment and the debt remains unpaid, the creditor has a "judgment debt" and can take immediate steps to enforce it.

The various methods of enforcing judgments in tbe county courts include:

- The "warrant of execution" which is the most common. This is wbere the court orders an enforcement officer or bailiff to seize and sell by public auction goods belonging to the dehtor. Tools of a trade and essential household items are exempt from seizure.
- A charging order which a creditor can obtain on a debtor's property, for example, his house. If the debtor later sells the property the creditor is assured of receiving some money.
- The attachment of earnings which will oblige the debtor's employer to deduct a set sum from the debtor's salary.
- A garnishee order which is not often used. It enables money owed to the debtor by a third party (the garnishee), usually a bank or a building society, to be held for the benefit of the creditor.
- An administration order. This allows n debtor with multiple debts not exceeding £5,000 and at least one of which must be a judgment debt which he is unable to pay immediately, to apply to discharge all obligations by making regular payments into court which are distributed among creditors on a pro rata basis. When such an order has been made, creditors are forbidden to take other enforcement measures without the specific authority of the court.

Oral examinations designed to help creditors find the most appropriate method of enforcing a jndgment are held in the county court each year. Although the oral examination is not a method of enforcement, the fact that a debtor is ordered to attend court to provide details of income, expenditure, employment and bank accounts often results in the debt being paid.

Methods of enforcemant in the High Court include charging orders and garnisbee orders and the appointment of a receiver to manage the judgment debtor's property to protect the creditor's interest in it.

If all this fails, a person or company unabla to meet debts is "bankrupt" or "insolvent". Creditors may issue a petition for bankruptcy against individual debtors either in a designated county court but more normally in the Chancery Division of the High Court. Creditors can also petition for the winding-up of an insolvent company.

If no action is taken to recover a debt for six years it becomes statute barred and no action can be taken.

The Lord Chancellor's department has produced a series of leaflets to guide companies on how to make a claim in a county court. The leaflets include details of the fees that have to be paid and should be available at county courts.

New system cuts the risks

Continued from page 4

Also, we are able to pre-credit customers and give answers to their credit requests far more quickly."

Pre-crediting in conjunction with marketing operations has enabled credit management to be pro-active as opposed to merely reactiva, be says.

Decision Index functions by tapping to a large database supplied by Dun & Bradstreet and cross-referring to Hunter's own customer information and credit demands. In the datahases is filed comprehensive information on several thousand companies which supply their details to D&B. in addition to the detailed information, basic business dossiers are potentially availahle on 36m companies worldwide and nearly 2m in the UK.

The detailed files in the databases used by Decision Index enables sales data updates and payment records to he accessed. Another important feature of the system, according to Mr Philip Mellor, senior analyst at D&B, is that the information is dynamically updated. "It is updated overnight with any information that we may receive on a company from a variety of sources such as payment data, any news from the courts or from Companies House."

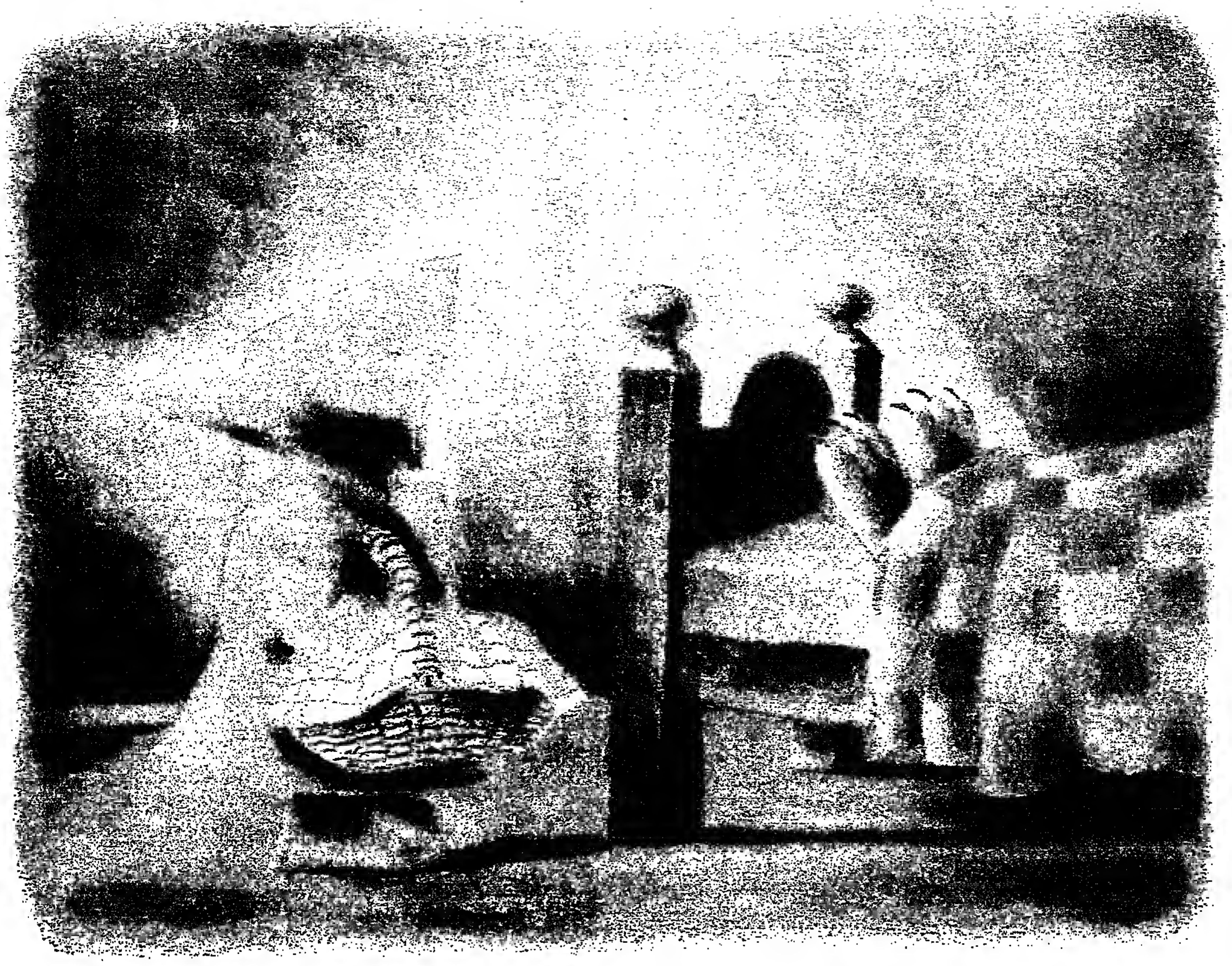
However, Mr Mellor is quick to stress that such a monitoring device is no substitute for human credit management. Rather it is a sophisticated filter after which significant decisions are still the responsibility of the credit analyst.

Mr Griffiths agrees and says that while the credit scoring system devised for Hunter's requirements is rapid, it is not the be all and end all of credit analysis.

"It doesn't work without people being involved. If a score goes to a certain level then that is fine and it is accepted by the system, hut if it doesn't reach the required level then we don't necessarily say we won't deal with the customer. A credit analyst will then look more closely at the proposal," says Mr Griffiths.

After just seven months in operation it is too early to estimate the savings that Hunter Timber may make by using Decision index. They will, however, expect the system to cut their exposure to bad deht, reduce the costs of bank credit checks on customers, and speed up new business processing with the pre-crediting capability. Mr Griffiths enthuses: "It bas been a quantum leap."

Christine Buckley



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Monday March 6 1995

Snares around the corner

The market is recovering, but the industry's "big six" face new competitors. Soaring prices for raw materials are eroding their margins, writes John Griffiths

Most of the leading companies in the world's $60bn-a-year tyre industry have at last turned the corner into profitability.

Behind them lies a rocky road of recession and restructuring along which they had been jolting for several years.

In the immediate future reviving markets mean that the way ahead should be smoother. But where it will eventually lead manufacturers, in terms of the industry's global shape by the turn of the century, remains uncertain.

Key developments within the industry include:

■ An increasingly strong challenge by new Asian competitors to the four western and two Japanese manufacturers which between them currently dominate the global industry and account for three-quarters of total world sales. South Korean manufacturers, in particular, are working hard to secure a foothold in the high-volume replacement tyre markets of the developed world, where competition has becoma increasingly based on price, rather than technology.

European tyremakers are responding with the launch of their own second- and third-tier brands aimed at the cheaper end of the market. In doing so, thay ara taking a path already well trodden in North America.

Last month, France's Groupe Michelin, the world's biggest tyremaker, and Continental of Germany, Europe's second biggest producer behind Michelin, took the process a stage further. They announced several co-operation agreements within Europe, including a joint venture to produce low-price tyres under the Uniroyal brand. By pooling their resources in the sector they expect to make combined savings of around $115m. (Both, however, stressed that the move was not a precursor to closer ties such as a shareholding swap.)

■ Soaring prices of raw materials, particularly natural rubber, have led to a costs squeeze of a severity that was wholly unexpected as little as a year ago. Vehicle makers are at last acknowledging this particular crisis, and allowing some small price rises. But most tyremakers are resigned to profit margins in the original equipment busineas remaining virtually non-existent – and to regarding it instead as a necessary precondition of gaining access to larger and higher margin replacement business.

■ Pressures are mounting for the "big six" manufacturers – Michelin, Bridgestone of Japan, Goodyear, Continental, Pirelli of Italy and Sumitomo of Japan – to develop more flexible and sophisticated manufacturing processes. One goal is further to cut costs. Another is to allow the viable production of a greater variety of tyres in smaller batches – needed to match the fragmentation of world car output into an ever-greater variety of niche vehicles.

■ There is an intensifying "technology race" as the biggest and most technically competent companies seek to gain competitive advantage through technologically advanced products for which a price premium can be extracted.

Notable newcomers includa Michelin's "green" low rolling resistance tyres, claimed to cut fuel consumption by 5 per cent compared with "ordinary" tyres; Pirelli's receotly launched high-performance P6000 range, a computer-generated tyre with a high silica content reconciling wet grip and low rolling resistance, and specialised rain tyres from Goodyear and Continental, distinguished by a deep ceotral groove to diaperse water rapidly.

Tyremakers sometimes have exclusive deals on high performance cars. Pirelli of Italy now has an agreement with Jaguar, the Ford subsidiary

On the positive side, the economic recession of the early 1990s, which caused both original equipment and replacement tyre business to slump in key regions such as Europe and North America, is easing.

Japan's motor industry and vehicle market may still be struggling under the burden of the high yen, but Europe's steepest post-war slump in both car and truck markets has clearly ended and resurgent demand in North America has, for example, helped Goodyear achieve record profits in 1994.

And for western producers, the countries of the Asia-Pacific region offer opportunity as well as threat. As Mr Alex Trotman, chairman and chief executive of Ford, pointed out in launching Ford's "2000" project to globalise its vehicle design and manufacturing operations, it is in Asia-Pacific – not saturated western markets – that the vehicle population is set to expand most strongly.

Inevitably, this will create substantial new original equipment and replacement tyre markets. As the economies of eastern Europe and Russia start to revitalise, above-average tyre market growth can be expected in these regions, too.

There will be a fierce battle for market share in both areas, with indigenous low-cost producers still likely to capture the lion's share of the replacement market. However, for the industry as a whole growth in these regions can be expected to more than offset market-shrinking factors such as continuing increases in tyre life – Michelin has launched an 80,000-mile treadwear warranty in North America – and cyclical downturns in developed vehicle markets.

A recently published study by The Economist Intelligence Unit* forecasts that the market for car and truck tyres combined will grow by over 14 per cent between last year and the end of the decade to reach just over 1bn units, with the fastest growth – nearly 19 per cent – coming in the trucks sector.

Geographically, the greatest improvement over the period – 48 per cent – is expected to occur in China. Although this will be from a low base (see tables), all the big tyremakers are well aware that the eventual motorisation of China's 1.2bn population represents a significant business opportunity and are seeking to establish a presence there, notably through joint ventures. Similar developments are taking place in India, with its 850m population, as its economic reforms attract more inward investment in car and truck manufacturing.

Market upturns are only part of the explanation for reviving profitability in the industry. Another factor has been the need for a stringent approach to cost-cutting and raising productivity.

Goodyear's experience provides a good example. When Mr Stanley Gault, its chairman, was appointed from the US Rubbermaid group in 1991, what was formerly the world's biggest tyremaker was mired in losses, recession and a large debt overhang after successfully fending off a takeover bid from Sir James Goldsmith in the late 1980s.

The subsequent restructuring has been far from painless. Not least, the worldwide workforce has been cut from 108,000 to less than 89,000. But debt has been slashed from $3.7bn to $1.3bn and, says Mr Gault, "Goodyear has achieved financial stability and the ability to increase capital spending."

It is thus ironic that the industry has found itself having to grapple with some of the biggest price increases in its raw material supplies that it has ever experienced.

Two years ago, with overcapacity rife in the industry, tyremakers would have had little chance of passing on the increases, particularly to vehicle manufacturers. Now, says Mr Giuseppi Bencini, Pirelli Tyre Holdings' managing director, the situation is shaping up differently.

Market recovery means that overcapacity has been sharply reduced, thus putting tyremakers in a stronger bargaining position at the same time as vehicle makers have begun to realise the sheer scale of the increases. The price of natural rubber has more than doubled in the past year, and that of synthetic rubber has risen by 50 per cent. "So this time things will happen because the balance has moved," says Mr Bencini.

The tyremakers need 5-10 per cent rises just to cover higher materials costs, be insists. "Raw materials account for about a quarter of our total costs, so the increases are very substantial." According to analysts, the rises should start to abate soon, but tyremakers say they see little sign of this.

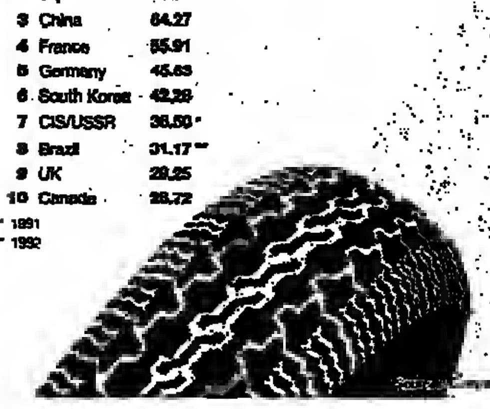
In terms of global competition, the raw materials price increases are hitting hardest not the big western and Japanese producers, but the Korean and other manufacturers currently selling into cheaper market sectors – for the obvious reason that raw materials represents a larger proportion of the price of their products.

The World Tyre Industry: Competitive Challenge to 2000. The Economist Intelligence Unit, 15 Regent St, London SW1Y 4LR. $770/£495.

Top tyre-producing nations
1993

Rank	Country	Units (million)
1	US	237.45
2	Japan	140.12
3	China	84.27
4	France	55.91
5	Germany	45.63
6	South Korea	42.28
7	CIS/USSR	36.50*
8	Brazil	31.17**
9	UK	29.25
10	Canada	28.72

* 1991
** 1992



Top tyre makers
1993

	Maker	Country	Sales ($m)
1	Michelin	France	8,940
2	Bridgestone	Japan	9,472
3	Goodyear	US	8,853
4	Continental	Germany	3,719
5	Sumitomo	Japan	3,223
6	Pirelli	Italy	2,747
7	Yokohama	Japan	2,522
8	Toyo	Japan	1,296
9	Cooper	US	1,015
10	Kumho	South Korea	876

Source: Company statistics, International Rubber Study Group, European Rubber Journal

World truck tyre sales (millions of units)†

	1994*	1995	1996	1997	1998	1999	2000
Western Europe	26.0	26.2	26.4	26.6	26.8	27.0	27.2
Eastern Europe	6.6	7.0	7.2	7.6	7.9	8.2	8.5
Russia	21.3	22.5	23.7	24.9	26.3	27.5	28.7
North America	50.0	50.0	50.1	50.1	50.2	50.2	50.3
Asia/Africa	67.3	69.1	70.9	72.7	74.4	77.5	78.0
China	40.3	43.0	45.7	48.4	51.1	53.6	56.5
Latin America	19.3	19.9	20.3	21.1	21.7	22.3	22.8
Others‡	15.0	16.0	17.0	17.5	18.0	19.0	20.0
TOTAL	245.8	253.7	261.3	268.9	276.4	285.5	292.1

†Forecasts *Estimate ‡Replacement only
Source: Economist Intelligence Unit

World passenger car tyre sales (millions of units)†

	1994*	1995	1996	1997	1998	1999	2000
Western Europe	180.6	184.2	187.6	191.5	195.3	199.2	203.0
Eastern Europe	16.6	18.5	18.7	19.4	20.3	21.3	22.2
Russia	13.7	14.8	15.9	16.8	17.9	19.0	20.1
North America	247.7	249.5	251.2	253.1	254.6	256.4	258.2
Asia/Africa	124.2	127.2	130.1	133.1	136.2	139.3	142.4
China	5.1	5.7	6.5	7.3	8.3	9.5	10.5
Latin America	34.8	36.0	37.2	38.5	39.8	41.2	42.6
Others‡	15.0	16.0	17.0	17.5	18.0	19.0	20.0
TOTAL	637.7	651.9	664.2	677.2	690.8	704.9	719.0

†Forecasts *Estimate ‡Replacement only
Source: Economist Intelligence Unit

John Griffiths looks at prospects in North America

US car sale upturn could last until 1998

The continuing rise in North America's vehicle sales – after two earlier years of growth – is taking some sectors of the market to record levels.

"People are expecting the bubble to burst but at the moment don't have any clear reasons to support this belief," according to one view at Goodyear Tire and Rubber.

The enduring upturn flies in the face of Wall Street, where share prices for months have reflected expectations of a plateau and probable downturn.

Rather more pragmatically, Mr Michael Ward, a Bear Stearns analyst, suggests that a number of motor industry economic indicators are pointing, in reality, to further modest growth, perhaps lasting to 1998. Bear Stearns expects US car and light truck sales to rise by 3.5 per cent this year and by a further 2.5 per cent in 1996.

This is encouraging for tyre manufacturers, who themselves had expected the boom in original equipment tyre sales, which has primarily fuelled their own recovery, to peter out by the middle of last year.

Instead, according to unofficial industry estimates, total demand for tyres in North America rose by 5.8 per cent last year.

The more buoyant than expected original equipment market has gone some way to offset a number of problems crowding in on the industry. It helped Goodyear, for example, last month to announce record net profits of \$567m, or \$3.75 a share, on sales 5.5 per cent higher at \$12.3bn (although this sum includes non-tyre products).

However profit margins in the replacement market are under pressure, raw materials price rises are increasingly straining supplier-customer relationships, and clouds are gathering over labour relations in the industry.

For Goodyear, a new three-year deal with the United Rubber Workers union has pushed up labour costs and, with increased price competition, has been largely responsible for reversing a steady rise in profit margins seen since 1990. Its gross margin fell from 25.2 per cent to 24.6 per cent.

Yet it is the dispute that involves the US operations of Bridgestone, which also owns the Firestone brand, that has potentially more far-reaching implications.

Bridgestone's recent decision to hire 2,300 replacement workers for 4,000 URW members who have been on strike at several of its plants since mid-1994 has become a *cause celebre*, on the grounds that Bridgestone would be unable to treat its employees similarly in Japan.

But the underlying reasons for the strike, notably the severe financial pressure that Bridgestone's US operations are under and its determination to push through efficiency improvements and cost cuts, have ramifications for the entire industry.

Bridgestone/Firestone managed a profit of only \$10m last year after racking up losses of around \$1bn since 1990. Consequently, it balked at signing a three-year labour contract with the URW similar to ones already agreed by Goodyear and Michelin, which also owns Uniroyal Goodrich in the US.

With Pirelli, which owns Armstrong in the US, also hiring replacement workers in a separate dispute, the URW plainly sees its long-standing ability to co-ordinate terms and conditions across the industry being placed in jeopardy.

The URW has already conceded to several Bridgestone demands relating to longer shifts and employee contributions to health care. And this will not be lost on the rest of the industry when contract renewal time comes round again.

Bridgestone has not been alone in having trouble laying foundations for a profitable North American operation after such a large acquisition as Firestone.

Michelin, Pirelli and Continental, with their respective Uniroyal Goodrich, Armstrong and General Tire acquisitions, have found rationalisation difficult and profits elusive. Results due shortly from all three, however, may show that break-even or better was at last achieved on their North American operations during 1994.

Further improvements, nevertheless, risk being hampered by the sharp rise in raw material costs experienced over the past year or so.

"Raw material costs have increased more rapidly and to a greater extent than anyone would have predicted," says Mr Stanley Gault, Goodyear's chairman. "We have attempted to offset them through other cost reduction programmes. But there is still a variance and we've got to have price increases to compensate."

Partly because much of the overcapacity in North America's tyre industry has disappeared, and partly because vehicle makers appear to be sticking to their pledges of mutually profitable partnership with all types of component suppliers, some modest price increases, averaging around 3 per cent, were made to stick last year in both original equipment and replacement markets.

Just how understanding the US "big three" vehicle makers, General Motors, Ford and Chrysler, will be of further attempts to raise prices this year, however, is very much open to question.

Meanwhile, unease about the direction of the US economy, persists despite the encouraging vehicle sales statistics. Mr Gault, for one, insists that there remains a danger of choking off growth in the key transport and housing sectors by too zealous wielding of the interest rates weapon again inflationary signals. Goodyear, he stresses, is taking no chances: "It's why we have accelerated global expansion to reduce dependence."

Such concerns have not stopped the industry from investing in efficient new capacity in North America. In the past few weeks Goodyear has announced a \$16m expansion of its car tyre plant at Valleyfield in the Canadian province of Quebec. That is additional to a \$25m project to increase high performance car tyre production at nearby Napanee, Ontario, together with a new rubber mixing facility. Meanwhile, Japan's Yokohama is spending \$50m on car and light truck tyre expansion at its Salem plant in Virginia.

The emergence of the Nafta free trading zone, embracing the US, Canada and Mexico, has meant that most import and export flows are within the three countries. As yet, there is little sign of any significant market attack from low-cost developing country producers such as South Korea or China.

This is despite highly varied and competitive replacement tyre sales channels, and a growing tendency for most North American consumers to regard tyres as little more than a distress purchase to be made as cheaply as possible.

It is this diminution of what were once widespread brand loyalties which has led even Goodyear to break out of its former distribution channels of company owned stores and dealers dedicated to selling its Goodyear or Kelly Springfield brands.

It has joined all its main rivals in seeking – successfully – additional sales through the big consumer retailing chains such as Wal-Mart and Sears. Despite ongoing opposition from some of its dealers, it could hardly afford not to do so. Sears has become the biggest single replacement tyre retailer in the US.

Profile: GOODYEAR TIRE AND RUBBER

No let-up on costs after record profit

The record profit that Goodyear Tire and Rubber was able to announce last month is largely the result of a restructuring programme first begun in what Mr Stanley Gault describes as the "dark and dismal" days of 1991.

At that time Mr Gault, newly-arrived from running the Rubbermaid group, the US rubber and plastic products maker, found a Goodyear mired in losses, recession and a big debt overhang from its successful fight to fend off a hostile bid by Sir James Goldsmith, the Anglo-French businessman, in the late 1980s. It was also bleeding financially from a costly diversion into an oil pipeline which at the time appeared to offer no prospect of earning its keep, or of a buyer being found.

"We have now fully met all elements of the (restructuring) plan, earlier than originally intended. It has given us new spirit, market position and image, together with valued financial flexibility," says Mr Gault.

Sales are up, a broad spread of new products has been introduced, market share in the key replacement tyres sector has improved, productivity is up and costs have been greatly reduced.

This has not been achieved without pain. Some 20,000 jobs have been lost, taking Goodyear's worldwide workforce marginally below the 90,000 level. "But we are working harder and more effectively, with fewer resources," says Mr Gault.

The effect has been to cut deeply into the \$3.7bn post-Goldsmith debt burden that Goodyear had been carrying. This has fallen to \$1.3bn, not including a \$1bn charge on health care benefits under new federal legislation which has affected the whole US corporate sector.

Despite Goodyear's return to financial stability, there is to be no letting up in the drive to improve the company's competitive position further.

A new four-year programme, called "performance plan plus", has been launched, which sets out clear new objectives on sales, capital spending, economies and other parameters, requiring higher performance from Goodyear's employees.

The programme calls for sales to rise by between 4.5 and 5 per cent a year in each of the four years to mid-1998. That is twice what Mr Gault estimates will be the global average. Operating margins are to be pushed to 12 per cent by 1998, compared with 10 per cent in 1993.

Sales, administrative and general expenses are to be lowered to less than 15 per cent of sales.

> The post-Goldsmith debt burden that Goodyear had been carrying has fallen to \$1.3bn, not including a \$1bn charge on health care benefits under new federal legislation

Capital expenditure is to be maintained at between \$500m and \$700m annually, compared with \$350m-\$475m in 1991-94.

The programme also calls for the debt to debt-plus-equity ration to be cut to 25-30 per cent from 40 at the end of last year's first quarter.

An overriding objective set back in 1991 was to change Goodyear from what Mr Gault describes as an international company "to a global enterprise, utilising all the synergies available in products, materials and technology."

Goodyear already has a dominant position in Latin American markets but now it is seeking to expand its presence in the "tiger" economies of south-east Asia, including Malaysia, Indonesia and Thailand.

With Goodyear having already acquired a foothold in China through a controlling stake in Dalian Rubber in Liaoning, India has also been targeted as a major growth prospect via a \$150m joint venture with India's Ceat. The 500,000 units a year car and commercial vehicle tyre plant is due to come on stream shortly. In eastern Europe, a Polish venture may also be established later this year.

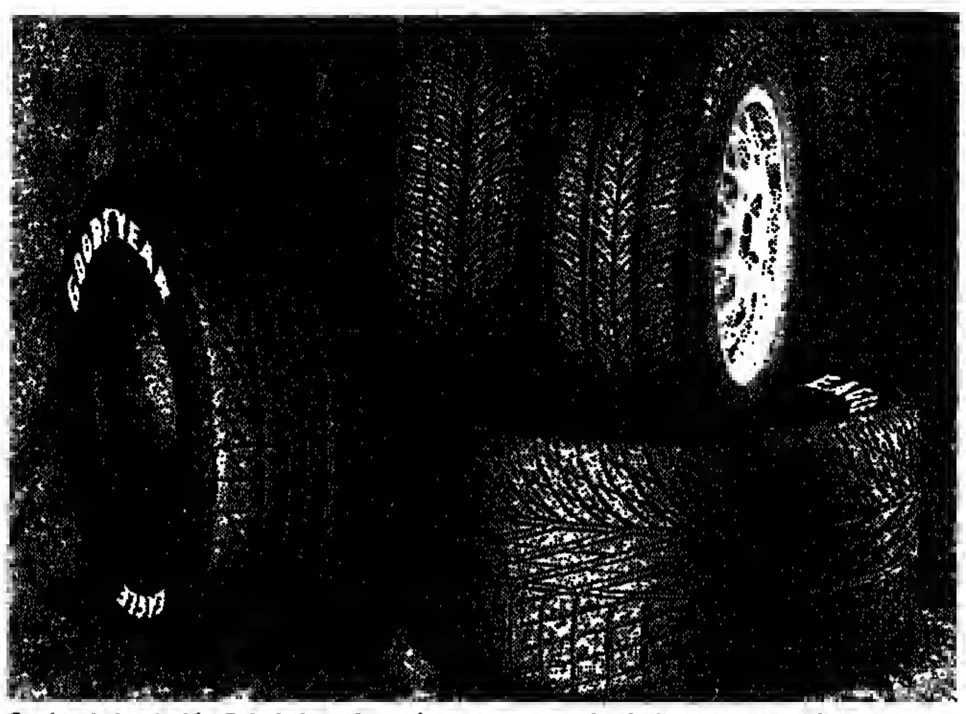
Not least, Goodyear is still expanding distribution and coverage in North America and western Europe.

It rankles with Mr Gault that, in his view, the financial community has not yet fully appreciated what are now 15 consecutive quarters of growth for the company. And if it were not for the \$1bn health care charge, Goodyear's debt to equity ratio would already be below 20 per cent.

The position has been helped considerably by what Mr Gault describes as the removal of the "tremendous millstone" around Goodyear's neck of the oil pipeline's former losses. "There has been a dramatic turnround; 3½ years ago it seemed a never-ending drain. But a three-pronged rescue programme was set out – to reduce operating costs dramatically, a renewed marketing push and a determined attempt to repair frayed relations with existing and potential pipeline customers.

It worked. It is now providing \$25m-plus in cash flow, and the 1994 results show it operated profitably.

The \$1.7bn original investment cost is now down to \$900m. Despite the ambitious new four-year plan, no major employment reductions are planned. "The intention is to continue growth now so that reductions will not be needed."



Goodyear's Aquatred family is designed for maximum water evacuation. In the picture are the Aquatro Formula 1 (front and rear), the Aquatred (centre) and a new high performance Eagle Aquatred (top right)

Nor are any more disposals planned. On the contrary, there have been more than 25 "mini-expansions" of capacity around the world, involving greater efficiencies at existing plants, which represent "the equivalent of two large new facilities," says Mr Gault.

One fundamental change of strategy for North America instituted on his arrival by Mr Gault – to widen its distribution channels and no longer rely so heavily on its network of exclusive Goodyear dealers – has led to friction, however. Some dealers were very dismayed by the decision to sell through major chains like Sears, K-Mart and Wal-Mart. "But it has been good for Goodyear and most dealers have not lost out."

John Griffiths

Bruce Davis reports on the growth of private and in-house brands

An upheaval in the retail market

The recent agreement by Groupe Michelin and Continental jointly to produce and distribute low cost passenger car tyres underscores a fundamental change in the European retail market.

Retail brand positioning across the continent is in upheaval as private brands (those marketed under a name created by the marketing company), house or associate/affiliate brands and non-European brands vie for a share of a relatively stable market.

At the same time, tyre manufacturers, seeking to defend their share of the market, have turned increasingly to associate brands – priced 20 to 30 per cent below their mainstream products.

All told, the budget segment has grown to about 25 per cent of the European retail market for car tyres, estimated to be between 117m and 125m units.

A natural consequence of the upheaval has been declining prices – good news for consumers, bad news for tyre makers. Manufacturers sell private brands to dealers at lower prices because retailers assume the entire responsibility for marketing, as well as a large portion of the distribution costs.

The growth of this market segment and its impact on the bottom line are thought to be behind Michelin's deal with Continental, which calls for the two competitors to join forces to make budget tyres at one of Conti's low-cost plants, probably in the Czech Republic, Slovenia or Portugal, each of which has capacity for 12,000 to 15,000 tyres a day.

Michelin is still considering which brand name or names it will use for the budget tyres; it is unlikely Michelin will use its own name for such a product, according to analysts.

The company broadened its product range into the middle-price segment about two years ago with the launch of its Classic line of tyres, but up to now has not been able to offer its dealers a budget product.

The emergence, or re-emergence in some cases, of private brands dates from 1990-91, when the big tyre makers implemented price increases averaging 10 to 12 per cent on their main lines, creating a market opportunity for lower-priced bargain tyres, according to Mr Mike Cartwright, director of Tyreco Trading, the UK wholesaler.

Continental's Newbridge, Lothian tyre plant has won the "Supplier of the Year" award two years in succession

Tyreco created its Southern brand three years ago to give it an exclusive export brand, and started up a second line, Suburbanite, last year for the UK market. It is made by Goodyear UK in Wolverhampton.

Initially, this low-end niche was filled by offshore brands from South Korea, Taiwan and south-east Asia. Sales of such tyres have risen steadily and now represent between 20 and 30 per cent of the less expensive S- and T-rated segments of major markets, as well as a growing share of the higher-rated H segment, industry representatives say. This category includes brands from the Pacific Rim as well as from eastern Europe.

While private and house brands account for more than half of the North American retail market, it is believed the share in Europe is not significantly more than 10 or 15 per cent.

More recently, though, European wholesalers and large retailers have taken the initiative to garner a share of this segment for themselves. This trend has coincided with the manufacturers' aim to increase factory utilisation, thereby keeping employment steady, and reclaim market share from non-European producers.

Perhaps most aggressive in this regard is Goodyear Tire & Rubber the largest maker of private and house brand tyres in North America. Goodyear is setting up a "custom" brand (own brand) division in Europe similar to that which operates under Kelly-Springfield/Lee Tire in North America. "Custom brands give us the chance to get additional value out of existing assets," says Mr William J. Sharp, executive vice president, Europe. Goodyear is not alone in this observation, however.

Pirelli took on two private brand accounts last year, representing several hundred thousand units, and Continental also got into the act, using its Gislaved subsidiary in Sweden for production.

In the past few years, Goodyear has stepped up marketing in Europe of its own house brands, Kelly-Springfield and Lee, and in 1992 signalled its private brand intentions by agreeing to make up to 1m units a year for France's Arc-en-Ciel retailing group under its Rainbow brand.

At its plant in Phillipsburg, Germany, the company also makes tyres for the Swiss ESA buying group, which in turn is part of the expanding five-nation Tecar buying co-operative; representatives of ESA are interested in expanding their private brand deal to the entire Tecar group, which consists of 5,500 partners in France, Germany, Denmark, Italy, Austria, and Switzerland. The Fulda brand, representing about 15 per cent of Goodyear's European turnover, is distributed through an independent marketing organisation, and maintains its own identity and pricing structure.

Goodyear is currently limiting production of its private brand tyres in Europe primarily to S- and T-rated summer and winter passenger car tyres, with some H-rated units in development. Custom branding of performance tyres is not currently part of the programme, but demand for 4x4 off-road tyres will lead to private brand production of such units in the near future.

Custom brands usually come from European plants, but Goodyear is now evaluating its Latin American plants for such production.

Most new private brands setting up need minimum annual orders of several hundred thousand units, Tyreco's Mr Cartwright notes, or about 20,000 units per size a year. Private branding in Europe for now is a mixed bag of options, ranging from sharing a manufacturer's tread pattern to using an older one.

Another consideration for a manufacturer in opting to make private and/or house brands is the market position of the main brand, according to Mr Helmut Kasner, director of marketing and sales for Pirelli Reifenwerke in Hoechst, Germany.

"A top-of-the-line brand will never or only seldom be an option for the price-conscious consumer," he says. "However, we don't want to overlook this price-sensitive market segment, leaving it to bargain suppliers."

As a result, Pirelli has expanded the market reach of its second-line Ceat and Courier brands to countries outside their traditional markets – Italy in Ceat's case and the UK for Courier. In Germany, for instance, the large retailer, wholesaler and retreader Gummi-Mayer has been awarded exclusive wholesale marketing rights for Ceat.

Pirelli also intends to increase use of the Armstrong brand name in Europe, primarily for off-road and other speciality applications. Concurrently, it has taken on two large volume private accounts – the Eurostar brand for the 450-outlet Point S organisation, and Axxium for the newly established Axxium International.

France's Point S began a campaign last year to attract dealers in Spain and the Benelux countries, and is scouting the UK for potential as well.

Continental's first venture into private branding is the Tyfoon brand for the Dutch wholesaler Inter-Sprint Banden; this brand was previously made in south-east Asia, but Conti recently took over its production at its Dack plant in Gislaved, Sweden.

Conti is European champion of the multi-brand strategy, however, with eight in-house brands – Barum, General, Gislaved, Mabor, Sava, Semperit, Uniroyal and Viking – besides Continental. But the company is reviewing this quiver of options and may switch to a more concerted strategy.

Continental's deal with Michelin secures European marketing rights to the Uniroyal brand name (15 per cent of Conti's European tyre sales) beyond 2004, when they otherwise would have reverted to Michelin, which gained them in its purchase of Uniroyal Goodrich Tire in 1989.

According to the licensing agreement, Michelin would have been able to start using the brand name as early as 1999: Conti already had begun to phase out the Uniroyal name, but now can reverse this trend, according to Mr Hubertus von Grünberg, Conti chairman.

Bridgestone/Firestone Europe, traditionally the most active in the private brand sector, has been shifting more capacity into its mainstream product lines, but still supplies three accounts of note – Centaur Supreme to Kwik-Fit Holding in the UK, Power 2000 to Stinnes in Germany, and Seiberling to Norauto Group in France.

The company also distributes the Dayton associate brand in Portugal, Spain and the UK, and has introduced the brand to dealers in France as a low-end complement to Bridgestone and Firestone. In the UK, it recently launched a retail support programme called First Stop. BS/FS intends to complement this franchise-like organisation with an exclusive brand under the same name; at present, the project is limited to the UK.

Sumitomo Rubber Europe, producer and marketer of the Dunlop brand, gained a complementary, budget-oriented brand last year when it acquired Pneumant Reifenwerke, the former east German state enterprise.

Previously, Sumitomo had no budget brand to offer its dealers, and company management was cautious about moving into the segment because of the risk of undermining its flag brand.

The brand is particularly strong in the UK, where Pneumant maintained its own sales company even during the days of the communist GDR. Sumitomo/Dunlop is also confident that Pneumant still carries sufficient recognition in eastern Europe to be an effective market tool once the economies of those countries achieve sufficient strength.

Groupe Michelin has yet to finalise its approach in Europe to private brands, but management is formulating a strategy as how to best to use the firm's in-house brands – Michelin, Kléber, Goodrich, Riken and Tyremaster.

Up to now, the separate brands within the Michelin group have been given a high degree of autonomy, but management is now leaning towards a more orchestrated approach.

Also competing for the budget customer's business are dozens of import brands from eastern Europe and south-east Asia, along with retreaders.

Nevertheless, the resurgence of this product segment has thus far not enticed the oil companies to revive their own branded tyre programmes, most of which fizzled out in the latter half of the 1980s.

The author is European editor of the European Rubber Journal.

Haig Simonian looks at recycling

A burning issue

The world's scrap tyre mountain is growing by the day. Soon, environmentalists fear that it will prove uncontrollable unless manufacturers change their ways.

Western Europe alone produced around 200m tyres last year. Almost 140m were made in the US, while Japanese companies made another 140m. Add to that significant amounts from South America, the former Soviet Union and, more ominously, growing markets such as China, and the mountain is hard to neglect.

The problem of scrap tyres has been accentuated by limitations on traditional uses. Some tyres have traditionally been taken by farmers to hold down plastic sheeting over crops, and by ports and marinas, where tyres are a familiar quayside feature.

Beyond that, the usual fate for scrap tyres has been legal – or often illegal – dumping. However, many countries have passed lawa to ban storage above ground, and are now limiting landfill disposal, too.

Above ground, storage has heen prohibited for environmental reasons. A fire involving tyres is notoriously difficult to control because of the high temperatures at which they burn. Being made largely of oil and petrochemicals, tyres are easily combustible and hard to extinguish. They also emit a heavy, cloying black smoke which is vistble for miles. One recent fire in Canada took weeks to douse.

Landfill dumping has also become more difficult. German municipalities now forbid people discarding old tyres, while a new law under consideration would oblige manufacturers to take back their tyres, explains Mr Rainer Stark, head of quality and the environment at Continental, Germany's biggest tyre maker.

In the UK, the Department of the Environment has advised landfill sites to restrict the quantity of tyres they accept to 5 per cent of total volume to avoid instability and long-term contamination of the water table through leaching.

Standards could become tougher still. New European Union rules, which have yet to be approved, call for a virtual elimination of scrap tyres by setting ambitious targets for recycling and recovery.

According to the proposals, 65 per cent of tyres should be eliminated by recovery schemes such as combustion in cement kilns or by recycling used materials like steel bracing. Another 25 per cent are to be removed by retreading, while the remaining 10 per cent should be eliminated by "prevention". That means making new tyres last longer to lower the scrap mountain.

However, the EU blueprint, drawn up by a committee from all sides of industry and environmental lobbies, gave no clear advice on bow these goals should be met.

As matters stand, the uses for tyres are very limited.

● Retreading is the most establlshed technology, accounting for up to 50 per cent of truck and bus tyres in some countries.

Retreading makes sense for commercial operators as new tyres are costly and designed to allow multiple retreading. But retreading has not caught on among private motorists. The main reason is psychological: retreads are still unfairly saddled with a poor reputation for quality and safety.

That is no longer the case, according to the retreading trade. They are already trying to market their services to private motorists for special uses, such as winter tyres. But for normal motoring, drivers remain averse to huying retreads, notwithstanding the cost advantage. As a result, retreads account for little more than 20 per cent of the private car market in Europe at best, and far less in soma EU countries, such as the Netherlands.

● Grinding tyres down into rough crumhs or finer powders. The crumbs, which come in a variety of sizes, can be used for applications from athletics tracks to flooring for indoor sports centres.

Some companies have tried to expand the market. They have used rubber crumb as the base material for products such as traffic cones and even the horizontal "sleeping policemen" used to slow down cars at the entrances and exits to many villages. Among other uses are carpet underlay, heels and soles for shoes and even matting for stables.

However, the use of rubber crumb is limited. In spite of innovations, "there is a limit to the number of traffic cones we need," says a senior official at the UK's Department of Trade and Industry, which is responsible for implementing the EU's waste stream policy on tyres.

Hence the shift of attention to other alternatives. Combustion is the foremost. Tyres have a high calorific value (more so than coal) and burn easily. They can thus form an useful source of energy for many applications.

In Germany, scrap tyres have traditionally been used in cement kilns. Research is now also under way in Italy on similar usage.

In the UK, Elm Energy, a Wolverhampton-based company, has built Europe's only tyres-to-energy incinerator. The plant devours between 90,000 and 100,000 tyres a year to generate about 20 MW of power.

The tyres are fed into five incinerators, where they are hurned to raise steam to drive a turbine. The whole plant is relattvely clean and quiet, while its emissions are virtually non-existent because of sopbisticated, and higbly expensiva, smokestack scrubbing technology.

Tyres-to-energy may be catching on. Mrs Anne Evans, the American executive behind Elm Energy, now wants to build a slightly higger plant in Belgium.

However, such schemes can work only if subsidised, as the electricity generated is insufficient to cover the huge capital costs. Elm Energy became feasihle because of the government's non-fossil fuel ohligation, which in effect subsidises electricity generated by a variety of renewable soures.

Other technologies are being developed. Bevan Recycling, in conjunction with the UK Atomic Energy Authority, has developed a specialised unit for *pyrolysis*, which involves decomposing tyres by heat in an oxygen-free atmosphere to avoid combustion.

Some tyre manufacturers are taking matters into their own hands. Michelin has helped to develop technology to use rubber powder as a road surface. Continental has set up a special subsidiary, Reifen Entsorgungs Gesellschaft, to collect scrap tyres and ensure they are disposed of in an environmentally acceptable way. The company now collects about 120,000 tonnes of used tyres a year.

Similar schemes are under consideration in Italy and France, though in both cases, the initiative is being taken by the whole industry rather than just one manufacturer.

But, whether together or individually, all the companies are searching for ways to deal with their used tyres. The tyre mountain may never subside, but industry and green lobbyists hope that its future growth can at least be contained.

■ MANUFACTURING TECHNOLOGY

Producers are being stretched

Tyre manufacturing technology is having to adapt to a rapidly changing marketplace.

At one extreme, there is the demand for ever-cheaper prodnction nf low-cost replacement market tyres, in which the finer nuances of performance and durability take second place to price.

At the otber, is a *fragmentation* of demand for premium and high performance tyres to the extent that tyremakers are developing original equipment tyres for specific models even if the prodnction runs for them are relatively small. Pirelli's development of new tyres specific to Jaguar's latest XJ saloon, on an exclnsive supply contract, provides a case in point.

In the cheaper "commodity" sector of the replacement market, automation needs to be at a high level – and for the leading tnternational tyremakers it is, although not quite at the "lights out" capability of some other motor industry components manufacturing.

There have been significant steps since even a decade ago, when laminating of each carcass was usually carried ont mannally, even thongh individual materials hy then were being fed to operators on antomated reels.

Bnt there is the need, also, to have manufacturing processes flexible enongh to make high qnality products profitahly In prodnction runs which conld be as small as a few hundred, points ont Mr Guiseppe Bencini, managing director of Pirelli's tyre operations.

So the industry continnes to grope its way towards the best compromises it can find. What is needed, says Mr Bencini, is processes which "allow standardisation in engineerlog while maintaining marketing *differentiation*". Under this scenario, the differentiatlon wonld come only at the final stage – the prodnct itself – not in the fundamental processes.

Most manufacturers maintain that the process changes now going on in the industry are evolutionary, rather than revolotionary – despite the intense speculation that has *surrounded the activities of* Michelin and its "C3M" manufacturing system developed at its Clermont-Ferrand headquarters.

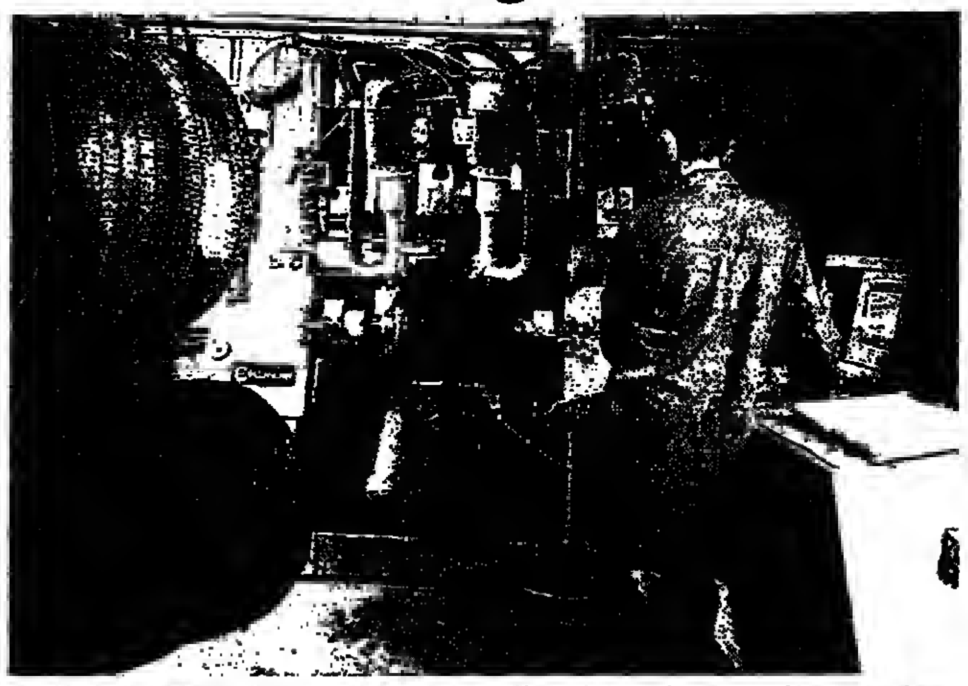
Michelln exectives have maintained for some time that a revolution in manufacturing could indeed be imminent. But if so they are very mnch keeping it to themselves, with few details leaking ont to rivals.

The C3M facility, already operational for aronnd a year, is nnderstood to occupy only aronnd 10 per cent of the space taken np by a conventional plant of equivalent ontpnt, made possihle in part by some components of the tyre being pre-assemhled away from the main production line.

The facility employs far fewer people for its ontpnt than a conventional assembly plant. As and when the system spreads throngh Mlchelin's operations, it is likely that further reductions in the workforce will be needed.

However, this rate of introdnction is likely to be determioed wholly hy commercial considerations, and the need to balance the prodnctivity gains in prospect with the financial imperative of amortising existing plant and equipment.

For that reason Michelin's rivals say that they are not alarmed by the French tyremaker's innovations and that they, too, have the capability to introdnce prodnctivity-enhancing new technology as and when it is considered commercially appropriate.



A computer controlled machine removes the remaining tread from a tyre so that a new rubber compound can be applied

At its Bollate plant in Italy and at Breuberg in Germany Pirelli, for example, has for some time been operating a process in which a 100-metre-long assembly line is traversed hy the huilding drum, with the tyres' individual components applied antomatically. At the end of the line the collapsihle drum returns to start another cycle by means of an underground conveyor.

The pace of research and development, however, continnes to he relentless. Last year, for example, Continental earmarked DM100m for a restructuring of its R&D operations aronnd a new technology centre at its Hanover-Stocken tyre plant. By the time it is in full operation, last year's 500 employees will have grown to 1,000 and all central tyre research and car and commercial vehicle tyre development will have heen concentrated at tha site.

As in other industries, increasingly technology changes are being driven hy environmental as well as commercial considerations – some of which have significant implications for the manufacturing process as well as recycling.

Last year, for instance, the US Department of Commerce picked AlliedSignal Research and Technology and its industrial fibres division as the prime contractor tn develop more environmentally friendly materials to replace the steel which is fundamental to tyres' strength.

The research focuses on the use of low-cost elastomeric composite fibres as a steel substitute and, if adopted, would require several modifications to production processes.

However, claims Dr Isaac Barpal, AlliedSignal's senior vice-president and chief technology officer, "this technology can save billions of dollars and enormous amounts of energy".

Such tyres, he maintains, could be stronger, last longer, save on energy through reduced rolling resistance and be easier to recycle.

John Griffiths

■ THE ENVIRONMENT

Quest for green tyre

In science fiction, people jet around on scooters, travel on cushions of air or waft about on magnetic fields. Tyres by contrast, are conspicuous by their absence.

In the real world, however, the pneumatic tyre is part of the furniture. Yet in spite of its ubiquity, it remains surprisingly fragile. If road surfaces were perfect, tyres might last for years and cut fuel consumption dramatically thanks to lower friction. In fact, a tyre's vulnerability to anything from cola cans to kerbstones means it can pose a disposal problem once its life is over.

Snch limitations highlight the main topics taxing tha industry's researchers. Stung by attacks from environmentalists, tyre manufacturers are trying to develop prodncts which last longer and can be recycled more easily. Moreover, pressure from motor manufacturers and green lobbies has accelerated the development of tyres which can cut fuel consumption without compromising performance.

Tyres account for between 14 and 16 per cent of a car's average petrol usage, says Mr Heinrich Huinenk, the head of tyre research at Germany's Continental. So lnwering their rolling resistance has an immediate impact on how much fuel a vehicle uses.

However, a tyre's rolling resistance is affected by many variables. Chemical composition, a tyre's contour and its "*footprint*" – the precise amount of rubber on the road at any one time – are three of the most important.

Weight also counts, as lighter tyres can reduce fuel consumption substantially. According to Michelin, the weight of an average tyre for a 16-tonne truck has dropped from 78kg in 1975 to 56kg. For a vehicle with seven tyres, that means a total saving of 154kg.

Manufacturers are researching into each area. Experiments with new fillers, such as silicon, "have helped to improve rolling resistance without sacrificing grip," explains Mr Renato Caretta, head of research and development at Italy's Pirelli. "The aim of compound development is to engineer a tyre which has a high use of energy when braking, but little during normal rolling," adds Mr Huinenk.

Tyre companies are also spending heavily to lower the size of the "footprint". That needs complex mathematical models using ultra-fast supercomputers to analyse different footprints under diverse circumstances.

"Our goal is to have the least necessary amount of rubber on the road at every possihle weight load," explains Mr Huinenk. To do that, scientists dlvide a tyre'a contour and footprint into thousands of different segments in their models, each of which is then studied separately. "We need to optimise the contour without reducing the tyre's life or driveability," says Mr Caretta.

Tread patterns are also relevant, though their environmental impact relates more to noise than fuel consumption. Above certain speeds, tyres can be louder than the internal comhustion engines driving them.

Durability is the researchers' other main concern. The race to introduce ever longer-lasting tyres has become a major competitive factor in tha market. Although the stress on durability is greater for truck tyres than for car tyres, as the former pound out thousands more miles a year and are much more expensive, lifespan is crucial in both cases.

"A modern radial ply tyre lasts about 40,000-50,000 kilometres for cars and much longer for trucks," says Mr Maurizio Prete, bead of the truck tyres division at Pirelli. New truck tyres are capable of covering about 150,000 miles before retreading, according to manufacturers.

All the leading makers are striving to extend these limits. Michelin gives a 80,000 mile warranty for its XH4 car tyre in the US. The French company, the world's biggest tyre manufacturer, is not alone in its bravado. In Europe alone, Pirelli and Continental are also extending tyres' lifespans. However, both note that US driving conditions favour durahility compared with Europe. "Don't forget most driving there is on highways and there's a 55mph or 65mph speed limit," observes one.

But even the longest-lasting tyre must reach the end of the road one day. Manufacturers are concentrating their "after life" research on introducing prodncts which can be retreaded more easily or economically, and on developing tyres which can be disposed of in an environmentally-acceptable way.

Retreading applies mainly to commercial tyres, which are built more robustly than car tyres. "Some truck tyres are retreaded up to four times," says Mr Prete. That can extend their lives to about 375,000 miles if they are also regrooved. According to Continental, abont 48 per cent of Germany's truck tyres are retreaded, against just 12 per cent in the case of private cars.

Motorista' aversion to retreading is largely psychological, as the industry now works to very higb standards. Though retreading is inadvisable for high performance cars, it is acceptable for lower speed applications, notes Mr Huinenk. "Retreadability is now a prime aim for every tyre we develop," he says.

Manufacturers have also been looking into using more rubber powder – which comes from scrap tyres – in their new products. However, there are technical limits to how much recycled material can be used, as endurance and durability tend to suffer if too much powder is used.

"In the end, a lot depends on driver behaviour," says Mr Huinenk. "Individual driving patterns are one of the biggest factors in s tyre's fuel consumption and life expectancy. Maintaining the correct pressure is also important." So aficionados of racing starts and skid turns should weigh up their environmental credentials against any penchant for high-speed thrills.

Haig Simonian

Carmakers are now involved in tyre development, writes **Stuart Marshall**

Wheel turns to a new image

The tyre has gone up in tha world. In the early days of high volume car production it was seen as little more than a rubber ring supporting each corner thet had to be bought as cheaply as possible. Now all car manufacturers are well aware that the tyre plays a significant part in determining the standards of handling, ride comfort, safety, noise levels and even fuel economy of a new model.

So, far from being something to he purchased at the best price once a vehicle has been signed off for production, its status now is that of an essential component developed as a joint exercise between tyre and vehicle manufacturer.

Car makers expect the tyres selected for a new model to enhance its image as well as match its performance. After homologation tests, they approve one or more tyres from selected manufacturers as original aquipment. The number of suppliers varies according to the size and type of market at which the vehicle is targeted, as well as the technical and commercial relationships between the companies.

Normally, there will be at least three suppliers though there are exceptions. In the case of lower volume, high performance cars one maker will have an exclusive contract. Examples are Bridgestone with the new Aston-Martin DB7 and Pirelli with all current Jaguars. And it would be unthinkable for Citroën to fit anything but Michelin. After all, the tyre maker once owned tha carmaker.

Not so long ago, standard industry practice was for prototype vehicles to be designed and prodnced with little advance consultation between carmaker and tyremaker. Broadly, if a tyre would fit within the wheel arch and not foul bodywork or suspension, it would do. (In some cases, as owners found to their chagrin, even these basic requirements were not met.)

The tyremaker would submit a product which took account of the type of vehicle, its power output and speed and the loads to be imposed. The carmaker would then test the tyre for ride and handling qualities and cornering and hraking grip on wet and dry surfaces. Sub-elements such as steering-centring feel, stability on entry and exit to a corner and attitude changes occurring when the driver lifted off halfway through would also be assessed. The tyre that was eventually accepted for original equipment fitment was in effect a standard prodnct that had been tuned by trial and error to suit the vehicle.

It would be unthinkable for Citroën to fit anything but Michelin. After all, the tyre maker once owned the carmaker

It is all much more scientific nowadays. There are still initial discussions with tyremakers to establish the market segment at which the car is aimed. Just because a car is powerful and has a high performance potential, it does not follow that all huyers will be satisfied with the same tyre. Different driving priorities must be catered for.

For example, Michelin has three kinds of Pilot high-speed tyre. Pilot SX is for sporty drivers seeking ultimate cornering grip and instant steering response as they thrash up mountain passes. The HX is for business drivers covering long distances at high cruising speeds. And the distinguishing features of the CX for luxury cars are its silence and ride comfort, filtering out road-induced vihrations while still providing tenacious grip and high aquaplaning resistance.

Given basic vehicle data on weight, engine power outpnt and torque, wheelhase, track and maximum speed, the tyre designer has to decide the best dimensional characteristics. There may well be disagreement between the carmaker's engineers, stylists and marketing people and the tyre designer. The tyre proposed may be too heavy for the chassis engineer, too small in diameter for the stylist and not wide and sexy enough for the marketeers.

Ultimately, every tyre has to be a compromise. If comfort is the first considerstion, overall diameter, wheel size and aspect ratio (the relationship between height and width of the tyre's cross-section) have to he optimised. If handling, then the contact patch may have to be modified.

This co-operation between tyre and vehicle designer shortens development time and reduces cost

Minimising road surface noise generation is of the essence for luxury cars. Lower down the market, reducing rolling resistance for fuel economy is of increasing importance.

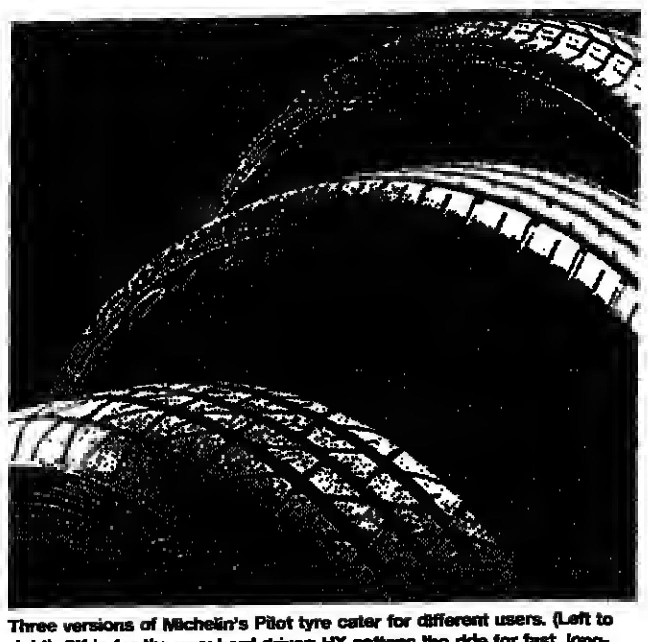
When a vehicle is completely new – as distinct from a mid-life facelift – and requires a wholly new tyre, an agreed reference tyre is established as a first step. This fixes an baseline for development.

New software programs that allow vehicle engineers to design and develop suspensions require input from tyre designers. Computer measurements of the proposed tyre under certain dynamic conditions produce coefficients for vehicle designers to enter into their computer handling models. Equally, the tyre designer uses information supplied by the vahicle maker. Once the vehicle prototype has been constructed, this data is supplemented, and the tyre design optimised, by using a kinematics and compliance rig.

The objective of this modelling process is to arrive at a design that allows the first prototype tyres to be close to the final solution. This co-operation between tyre and vehicle designer shortens development time and reduces cost.

In future, a different method of development already used in the low and medium car sectors may gain ground, particularly where high-speed potential is not a critical factor. All tyremakers have basic ranges with koown characteristics and can construct computer models of vehicles, suspensions and handling characteristics. Instead of tuning a tyre to a car, tuning tha car to an available tyre becomes an economically attractive alternative.

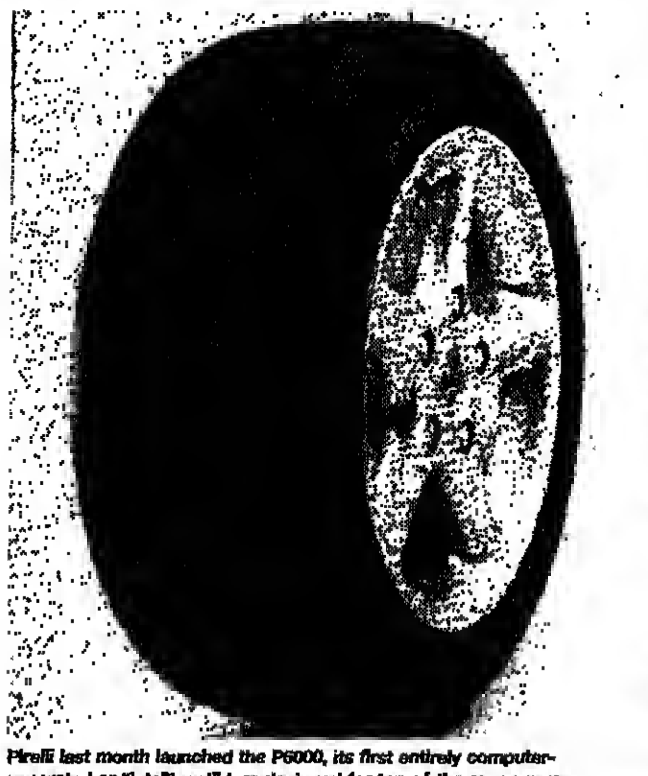
But at the top end of the market where cars are high in power, performance and price, joint development from day one remains inevitable.



Three versions of Michelin's Pilot tyre cater for different users. (Left to right): SX is for the very hard driver; HX softens the ride for fast, long-distance cruising; and CX majors on comfort and silence for luxury cars

John Griffiths looks at signs of recovery on the Continent

Europeans on the verge of profits



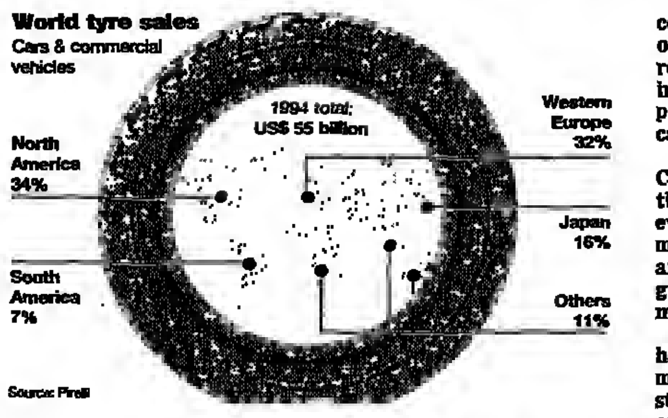
Pirelli last month launched the P6000, its first entirely computer-generated or "intelligent" tyre designed for top-of-the-range cars

Enrope's indigenous tyre manufacturers are under fierce competitive pressures on all fronts. Margins in the original equipment business are almost non-existent and the recession from which Europe is only now emerging has checked growth in the larger and higher margin replacement market. Not least, cheap imports from south-east Asia and eastern Europe are taking a growing slice of the high-volnme "commodity" tyra replacement sector.

In these circumstances, cost-cntting and efficiency improvements have moved to the top of the industry's agenda.

The medicine appears to be working – Europe's top tyre makers have returned to profitability or are on the verge of doing so.

Mostly, this has heen achieved within individnal companies. Following the unsuccessful attempt hy Pirelli of Italy to take over Germany's Continental Group, the industry's appetite for mergers and takeover seems to have been sated.



At the beginning of February, however, came a demonstration that the European industry is prepared to find other ways of closing ranks against new challengers from outside.

Michelin and Continental announced a series of collaborative agreements aimed at saving around FFr300m a year for each company.

The key elements include:

- A joint venture to develop low-cost tyres under the Uniroyal brand, using one of Continental's distrihution subsidiaries and the Uniroyal brand name. The companies will hold equal shares and contrihnte assets of equal value.
- Michelin will be provided with the hudget-priced tyres from several of Continental's low-cost plants ontside Germany, in the process providing Contineotal with improved economies of scale from these plants.
- Contineotal will be allowed to continue using the Uniroyal name throughout Europe. This had been dne to revert to Michelin after 2004.
- The two companies are to co-operate in a number of other areas, ranging from tyre recycling, inclnding retreading, to co-operation in the supply of wheel/tyre assemblies to car manofacturers.

Mr Hubertus von Grunburg, Continental's chairman, said the agreement was a "logical, evolntionary step beyond the many rounds of cost-cutting and internal efficiency programmes we have implemented in recent years."

Hnwever, both companies have stressed that the agreement does not mark the first stage in an eventual merger and that there will be no reciprocal shareholdings.

Certainly Michelio, the world's biggest tyre maker, now appears to be well past the crisis which seemed to be gathering around it in the early 1990s after it acquired Goodrich Uniroyal in North America.

Its cost-rednction programmes, aimed at savings nf FFr3.5hn between 1993 and mid-1995, are well on course and have already proved adequate to take Michelin back into profit. It announced a net profit of FFr410m ($80m) for the first half of last year, after losses of FFr3.2bn in the same period a year earlier.

Mr Eric Bourdais de Charbonniere, Michelin's finance director, has said those results marked "only the beginning" of recovery, expected to be reflected in full-year results in the next few weeks.

Volume growth of 13 per cent in Enrope, which increased market share, partly reflected Michelin's new market strategy of offering a more diversified tyre range.

Meanwhile, Continental is continuing to find life difficult as a result of raw material price increases; nevertheless it has indicated that its pre-tax earnings for 1994 should be btgher tban the DM65.1m ($41.9m) reported last year.

The acquisition of Czech tyremaker Barum has helped lift turnover and the company also expects to increase sales next year with its own range of low-rolling resistance, silica-based summer and winter tyres.

However General Tire, Continental's US subsidiary, is likely to report a loss for the full year because of continuing restructuring.

Pirelli, too, can be expected to show a further move into profits when its results are released later this month. The tyres and cahles gronp made a modest return to profit in the first half of its current year after more than two years of tough restructuring and losses. Net group profits were L54.6hn ($35.08m) compared with a loss of L62.7bn in the same period in 1993.

The improving climate has helped launch Pirelli into a significant investment programme, totalling L2,200hn over the next three years, all self-financed, of which L1,000hn is to be allocated to research and development.

However restrncturing, mnch of it in the tyres sector, has been snhstantial. The nnmber of plants worldwide has been cnt from 102 to 80 and the workforce has fallen hy more than 10,000 people to less than 40,000.

Mr Guiseppi Bencini, managing director of Pirelli Tyres, says the improvements have come despite what he describes as the "severe" pressnres Pirelli and other tyremakers are under from raw material costs.

But he, too, is hopeful that the gradual disappearance of overcapacity will make vehicle makers more receptive to tyre price increases.

Tyre prices paid by manufacturers in Europe and North America represent something of a paradox, he maintains. Original equipment tyre prices paid by vehicle makers in Nnrth America are higher than in Enrope – althnugh vehicle prices are snhstantially lower.

"It's a historical imbalance," says Mr Bencini. "The US mannfacturers would like to drive prices down to European levels, while the tyremakers would like to see European prices raised to US levels."

Mr Bencini maiotains tbat the current relatively small amount of surplus capacity is becanse the indnstry has "learned the lessons of the past" – a reference to the huge amount of new capacity hronght on stream in the late 1980s just in time for the onset of recession.

The major new investmeot programme, he maintains, reflects the change of emphasis now going on in the tyre industry.

It is aimed, he says, "not at capacity hnt at qnality and flexibility". Within the total, some L500hn is being spent solely oo new tyre development.

Pirelli has already introdnced 25 lines in the past two years, covering both cars and trucks, and plans to launch 30 more over the next three years. "There is still a great deal of scope to increase prodoctivity, qnality, and to achieve efficiency savings through the standardisation of prodncts and processes.

"It doesn't make sense to have different eqnipment despite product variations in North America and the rest of the world – we have got to have economies of scale."

The market is as large as North America's, writes **Arnold Redhead**

Asian demand is growing

Rising afflueoce in much of Asia and the emergence of the family car as a symhol of personal prosperity have created a strong demand for tyres, stirring growth in local producers while forcing changes in the way outside suppliers approach the market.

The region's share of world tyre consumptioo has grown steadily in the past few years and now accounts for almost 30 per cent, putting it on a par with North America and ahead of western Europe.

To meet the new demand, a pattern of cross-horder business tie-ups and local production is emerging among the region's tyre companies, led by the Japanese, the region's largest suppliers of tyres last year with a business worth $260m.

Companies such as Bridgestone, tha world's second-largest tyre company, and Yokohama Rubber, Japan's number two manufacturer, took their cue from carmakers who have been fleeing Japan's shores to escape domestic recession and the effects of an ever-stronger currency on profits from booming overseas sales.

Honda is huilding a $1bn factory in Thailand which will allow it to produce up to 60,000 more vehicles than at present, while Toyota will raise output at its Thai plant by 50 per cent over the next three years.

Toyota said its sales in Asia last year rose 7 per cent on the year, compared to a 5 per cent rise in the US, by far the world's largest market.

Toyota is also considering an expansion of its manufacturing facility in the Philippines. The company already has plants in Indooesia, Malaysia and Taiwan. Nissao the second-largest Japanese carmaker, is producing in Thailand. Isuzu, Thailand's largest supplier of pick-up trucks, is spending $160m to expand its Thai plant.

Bridgestone is responding by huilding a second tyre plant in Thailand, where it estimates demand in 1994 grew 7 per cent. The company is embarking oo a two-year programme of expansion at a plant in Indonesia to upgrade production facilities. Demand there is likely to rise by a similar rate, according to the company's estimates.

Bridgestone does not disclose its sales in the Asian region, but said it shipped 5 per cent more rubber for tyre manufacture to the region in 1994 than in the year before. Company officials say they see the Asian market as "a very important" growth area, although they add that it is too early to tell how the region will compare with the traditiooal export markets of the US and Europe.

For Yokohama Rubber, the road has been rougher. The company previously concentrated on expanding its domestic capacity, only to see a lot of this fall unused during Japan's recession.

The result was a dilemma that is starting to affect all of Japan's manufacturers, whether they are tyre makers or not: bow to increase production at overseas plants from where they can supply the lower-cost products their customers now demand, while still maintaining underused facilities at home – facilities which social conveotion usually forhids them from shutting down.

Yokohama Rubber finally hit the bullet last October when it decided to close one of its six tyre plants in Japan and instead build a joint venture facility in Indonesia with PT Gadjah Tunggal, Indonesia's biggest tyre maker. The company said it hoped the venture would make up for its slowness in responding to growth in the Asian market.

The Japanese face a threat to their dominance in south-east Asia from local manufacturers which have begun to use some of the same methods in their attempts to seize a larger share of the market from their northern competitors.

In Thailand, the leading manufacturer Siam Tyre has spent $69m to take over money-losing Philtread Tire and Rubber in the Philippines. The company already has a joint venture with French giant Michelin.

Another Thai conglomerate, P.B. Group, has set up the nation's first production facility for nylon tyre cord with a unit of India's Baroda.

Indonesia's Gadjah will expand its own facilities in addition to the joint venture with Yokohama with the help of a recently negotiated $117m bank loan.

However, the Japanese still have one very potent weapon to call upon to help maintain their lead: formidable technological expertise. Bridgestone spent about $380m on research and development in 1994 and leading Japanese companies can count on the knowledge they gained from buying out established foreign manufacturers such as Firestone, a Bridgestone subsidiary since 1988, and Duolop, mostly owoed by Sumitomo Rubber Industries.

The companies point out that there are only small technical differences between the tyres they produce in Asia and those for the Japanese market – involving little in the way of extra research and production costs.

At the same time, a slow economic recovery in Japan and the affects of cost-cutting and restructuring are starting to make things easier at home. This may help mitigate any loss of market share in Asia from the rise of local competition.

The Japan Automobile Tire Manufacturers' Associatioo (Jatma), an industry body, predicts economic growth in Japan of 1.5 per cent in 1995 and a rise in car production of 0.4 per cent. Demand for tyres should exceed 151m units, a 1.5 per cent increase on the year.

A change in regulations governing the loading of trucks and small lorries in Japan last year has also spurred demand for tyres as transport companies replace vehicles oow ruled unsuitable. Demand for truck tyres was likely to grow by more than 8 per cent this year, Jatma said.